

SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

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FILER

GULFSTREAM AEROSPACE CORP

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998
OR
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NO. 1-8461

GULFSTREAM AEROSPACE CORPORATION
DELAWARE 13-3554834
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
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Securities registered pursuant to Section 12(b) of the Act:

Title of each class -----	Name of each exchange on which registered -----
COMMON STOCK, \$.01 PAR VALUE	NEW YORK 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 is not contained herein, and will not be contained, to the best of 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. X

The aggregate market value of the shares of common stock held by non-affiliates of the registrant (based on the closing price for the common stock on the New York Stock Exchange on March 1, 1999 was \$2,605,156,713. For purposes of this computation, shares held by affiliates and by directors of the registrant have been excluded. Such exclusion of shares held by directors is not intended, nor shall it be deemed, to be an admission that such persons are affiliates of the registrant.

As of March 1, 1999, there were outstanding 72,765,418 shares of the registrant's common stock, par value \$.01, which is the only class of

common stock of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Annual Report to Stockholders for the fiscal year ended December 31, 1998 (the "1998 Annual Report") are incorporated by reference in Parts II and IV of this Form 10-K. Portions of the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 1999 (the "1999 Proxy Statement") are incorporated by reference in Part III of this Form 10-K to the extent stated herein. Except with respect to information specifically incorporated by reference in this Form 10-K, neither the Annual Report nor the Proxy Statement is deemed to be filed as a part hereof.

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PART I

ITEM 1. BUSINESS

GENERAL

Gulfstream Aerospace Corporation (the "Company") is recognized worldwide as a leading designer, developer, manufacturer and marketer of advanced intercontinental business aircraft. Since 1966, when the Company created the large cabin business jet category with the introduction of the Gulfstream II, the Company has dominated this segment of the market, capturing a cumulative market share of approximately 60%. The Company has manufactured and sold over 1,000 large business aircraft since the introduction of the Gulfstream product line in 1958.

The Company operates principally in three segments: New Aircraft, Aircraft Services and Pre-owned Aircraft. Within New Aircraft, the Company's current product offerings are the Gulfstream IV-SP, the Gulfstream V, Gulfstream Shares(R) (fractional ownership interest in Gulfstream IV-SPs and Gulfstream Vs), and Gulfstream LeaseSM. Also, the Company's financial services subsidiary, Gulfstream Financial Services Corporation, through its private label relationship with third-party aircraft financing providers, offers customized products to finance the worldwide sale of Gulfstream aircraft. Within it's Aircraft Services segment, the Company offers aftermarket maintenance services, spare parts, engine overhaul and auxiliary power unit service and overhaul for both Gulfstream and other business aircraft. The Company's Pre-owned Aircraft segment markets and sells pre-owned Gulfstream aircraft and other business aircraft, acquired in trade, to a worldwide market.

On October 16, 1996, the Company sold 4,559,100 shares of the Company's Common Stock, and certain partnerships (the "Forstmann Little Partnerships") formed by Forstmann Little & Co. ("Forstmann Little") and certain option holders of the Company's common stock, sold 37,940,900 shares of the Company's common stock, in an initial public offering at a price of \$24.00 per share. In May 1998, the Forstmann Little Partnerships and certain stockholders and option holders completed the sale of 18 million shares of common stock in a secondary offering at a price of \$43.00 per share. As of March 1, 1999, the Forstmann Little Partnerships owned approximately 22.8% of the outstanding shares of the Company's common stock.

ACQUISITION OF K-C AVIATION

On August 19, 1998, the Company completed the acquisition of K-C Aviation, Inc. for approximately \$250 million, including acquisition costs. The acquisition is a key part of Gulfstream's growth strategy and has allowed the Company to obtain a skilled workforce, as well as add additional capacity to accelerate its aircraft completions business, diversify and grow its aircraft maintenance and parts business, and strongly establish the Gulfstream name in the aircraft engine and auxiliary power unit service market.

K-C Aviation was a leading provider of business aviation services and the largest independent completion center for business aircraft in North America. The acquisition has provided the Company with the capacity for approximately 21 additional aircraft interior completions. In addition to custom aircraft interiors, K-C Aviation was the second largest independent aircraft engine service center in the United States and also offered maintenance services, spare parts, auxiliary power unit service, avionics retrofit, non-destructive testing and component overhaul.

NEW AIRCRAFT

The Company's New Aircraft segment operates in the business aircraft market which is generally divided into four segments -- light, medium, large and ultra-long range. These market segments are defined on the basis of range, cabin volume and gross operating weight. The Company sells new aircraft on a completed basis, including exterior paint, installation of customer selected interiors and optional avionics. The Company's principal product offerings are discussed below:

GULFSTREAM V

The Company's newest aircraft product is the Gulfstream V, which serves the ultra-long range market. The Company believes the Gulfstream V provides the longest range, fastest cruising speed and most technologically advanced avionics of any ultra-long range business jet aircraft currently in operation. The Gulfstream V received final type certification from the Federal Aviation Administration ("FAA") on April 11, 1997. Deliveries of the first outfitted aircraft to customers began in 1997. To date, the Gulfstream V has set 55 world and national records. The Company had received a total of 121 orders, 136 including options, for the Gulfstream V and had manufactured and delivered 61 Gulfstream Vs through 1998. As confirmation of the product's innovative design and outstanding performance, the Gulfstream V received the 1997 Robert J. Collier Trophy for aeronautical achievement and was selected by the United States Air Force to provide intercontinental transportation for senior government officials and dignitaries.

The Gulfstream V has a maximum operating speed of Mach .885. It can accommodate up to 19 passengers and has a range of up to 6,500 nautical miles. These capabilities permit routine intercontinental travel at cruising speeds comparable to commercial airline cruising speeds, while operating efficiently at altitudes as high as 51,000 feet, flying above most commercial airline traffic and adverse weather. The Gulfstream V is versatile enough to fly long-range missions, such as New York to Tokyo in approximately 14 hours, as well as high-speed missions, such as New York to London, in approximately six hours.

The Gulfstream V is equipped with two 14,750-pound-thrust BR710 engines built by BMW Rolls-Royce GmbH, which were specifically designed for

use on the Gulfstream V and for which Gulfstream was the launch customer. The sound levels of the Gulfstream V's engines are well below FAA Stage 3 and ICAO/Chapter 3 regulatory requirements (the FAA's and ICAO's most stringent noise abatement regulations). These engines are designed to operate 7,000 flight hours between major overhauls and, due to fuel efficiency, operate at a lower cost than the engines of the Gulfstream IV-SP.

The aircraft utilizes dual cabin pressurization systems to minimize cabin altitude. At its cruising altitude of 51,000 feet, the Gulfstream V cabin altitude is only 6,000 feet, the lowest cabin altitude of any jet aircraft in its class. This low cabin altitude, together with a 100% fresh air ventilation system (instead of a recirculating air system), significantly reduces passenger fatigue.

The advanced flight systems on the Gulfstream V include automatic throttle systems, an integrated performance computer system, an engine information crew advisory system, a dual global positioning system and independent inertial reference systems. These systems provide accurate flight planning, as well as automatic control, throughout the planned flight profile. For maximum safety, a Traffic Collision Avoidance System, turbulence and wind shear-detecting radar and an Enhanced Ground Proximity Warning System are also standard. An additional safety feature of the Gulfstream V is an optional heads-up display ("HUD"). The HUD optimizes pilot performance and improves flight safety, especially in low visibility conditions, by reducing the pilot's dependence on the instrument panel, thus allowing the pilot to direct his vision outside the cockpit.

In order to reduce the business risk associated with the design and manufacture of the Gulfstream V, the Company entered into revenue sharing agreements with Northrop Grumman Corporation for the wing and Fokker Aviation B.V. (a subsidiary of Stork B.V.) for the empennage. Under these agreements, the revenue share partner is responsible for the detailed design, tooling and manufacture of the systems in exchange for a fixed percentage of revenues of each Gulfstream V sold (which the Company records as a cost of goods sold upon an aircraft delivery). Thus, in addition to financing the development, manufacture and delivery of its components, each manufacturer shares in the risk of fluctuations in demand and market price of the Gulfstream V.

The list price for a completed Gulfstream V is expected to be approximately \$39.5 million depending upon selected options, escalation and availability. The Company provides a purchaser of a Gulfstream V with a 20 year or 20,000 flight hour warranty (whichever comes first) on the airframe structure and a six-year warranty on components (other than the engines). BMW Rolls-Royce GmbH provides a direct five-year or 2,500 flight hour warranty (whichever comes first) on the engines to purchasers of a Gulfstream V.

GULFSTREAM IV-SP

The New Aircraft segment's other principal aircraft product is the Gulfstream IV-SP, serving the large cabin business jet market. The Company believes that the Gulfstream IV-SP offers the best combination of large cabin size, long range, fast cruising speed and technologically advanced avionics of any large business jet aircraft in its market segment. The Gulfstream IV-SP is an enhanced version of the Gulfstream IV. In total, the Company has manufactured and sold 359 Gulfstream IV/IV-SPs from 1985 to 1998, making it the best selling large cabin business jet in the history of business aviation.

The Gulfstream IV-SP can accommodate up to 19 passengers, has a range of up to 4,220 nautical miles and a cruising speed of up to Mach .85. These capabilities permit routine intercontinental travel at cruising speeds comparable to commercial airline cruising speeds, while operating efficiently at altitudes as high as 45,000 feet, flying above most commercial airline traffic and adverse weather. The Gulfstream IV/IV-SP is the holder of over 70 distance, altitude and speed records for aircraft of its class including east-bound and west-bound around-the-world speed records (36 hours and 8 minutes (east-bound) and 45 hours and 25 minutes (west-bound)).

The Gulfstream IV-SP is equipped with two Rolls-Royce Tay fan jet engines which have commercial airline-proven reliability and performance. The Tay engines can operate 8,000 flight hours between major overhauls, producing aircraft operating costs for the Gulfstream IV-SP that the Company believes are comparable to those of its competitors. Additionally, the Gulfstream IV-SP, together with the Gulfstream IV and the Gulfstream V, combine an electronic "all glass cockpit" and an advanced avionics suite consisting of a fully integrated computerized flight management system, including a performance computer and automatic throttle systems.

The list price for a Gulfstream IV-SP, is expected to be approximately \$29.5 million depending upon selected options, escalation and availability. The Company provides a purchaser of a Gulfstream IV-SP with a 15 year or 15,000 flight hour warranty (whichever comes first) on the airframe structure and a 30 month warranty on most other parts (other than the engines). Rolls-Royce provides a direct 5 year or 2,500 flight hour warranty (whichever comes first) on the engines to purchasers of a new Gulfstream IV-SP.

GULFSTREAM SHARES (R)

The Company has offered customers fractional ownership in Gulfstream IV-SP aircraft through a program established by the Company in 1995 in conjunction with Executive Jet ("EJ"). In 1998, the Company and EJ announced the expansion of that program to include Gulfstream V aircraft. This program is designed to provide customers with the benefits of aircraft ownership at a substantially lower cost than the purchase of an entire aircraft. The program significantly expands the market for Gulfstream IV-SP and Gulfstream V aircraft to include those customers whose aircraft usage patterns or financial resources do not justify or permit the direct purchase of a Gulfstream aircraft. The Gulfstream Shares program, by teaming Gulfstream and EJ, has brought the Gulfstream name, quality, reputation and marketing infrastructure together with the operational experience and reputation of the founder and leader in the business jet aircraft fractional ownership market.

The Gulfstream Shares program is marketed by the Company. EJ purchases Gulfstream IV-SPs and Gulfstream Vs from the Company and then sells fractional ownership interests in such aircraft generally in one-eighth or one-quarter increments for which the customer receives 100 or 200 hours of flying time per year, respectively, with a guaranteed response time for pick-up of ten hours or six hours, respectively. As of December 31, 1998, the Company had contracted to deliver to EJ 44 Gulfstream IV-SPs and 12 Gulfstream Vs in connection with the North American Gulfstream Shares program, plus options for additional 12 Gulfstream Vs. Of these, 18 Gulfstream IV-SPs are in service, and the remaining 50 Gulfstream IV-SPs and Gulfstream Vs are scheduled for delivery through 2007. The customers enter into management and operating contracts with EJ which provide

guaranteed services and operating costs. EJ's agreement with its customers provides for a term of five years with certain termination and renewal rights. There is no recourse to the Company under the provisions of these agreements or under the Company's contractual agreement with EJ.

The Gulfstream aircraft are maintained by the Company under a maintenance agreement with EJ. Further, under a lease arrangement, the Company provides EJ up to 3 pre-owned Gulfstream IV aircraft (which are included in the Company's pre-owned aircraft inventory) which make up EJ's core fleet and are used to facilitate EJ's meeting its response time and service guarantees. In 1998, EJ exercised an option to purchase three new aircraft to replace these core-fleet aircraft. The Company has a proprietary agreement with EJ relating to the marketing activities and provision of the core fleet, pursuant to which the Company is reimbursed for certain marketing expenses and earns royalty fees on certain EJ revenues. The Company's marketing services agreement for Gulfstream Shares has a term of five years to 2003 and can be extended by mutual agreement of the parties.

In 1998, the Company expanded the Shares Program into the Middle East, with a 12 aircraft \$335 million contract with a group of Middle East investors. The first Middle East Shares aircraft was delivered green in the third quarter of 1998 and will enter service in the second quarter of 1999.

SPECIAL MISSION AIRCRAFT

The Company has designed and manufactured several derivatives of the Gulfstream V and Gulfstream IV-SP which are utilized for military and government Special Mission applications. These derivatives include the cargo door equipped Gulfstream IV/IV-SP aircraft in service with the U. S. Navy and Japanese Air Force which are designated the C-20G and U-4, respectively, and the long established U. S. Air Force C-20H Special Air Mission Gulfstream IV-SPs. Additional Special Mission derivatives are in military and government use throughout the world in diverse roles including signal intelligence, reconnaissance, medical evacuation, hurricane tracking, airways flight inspection and priority transport.

In 1997, a Gulfstream V derivative was selected by the U. S. Air Force for its VCX high priority transport program. With the 1998 order for a Gulfstream V for the U. S. Army and the additional C-37 option exercised in February 1999, the program currently includes four firm orders and three options for Gulfstream V C-37A aircraft. The C-37A aircraft will be operated by the U. S. Air Force Special Air Mission Wing and the U. S. Army.

There are currently 49 Gulfstream IV/IV-SP and four Gulfstream V aircraft in military or government service in 34 countries, with an additional 13 Special Mission aircraft to be delivered. The Company believes the Special Mission derivatives of the Gulfstream IV-SP and Gulfstream V will continue to be important products for meeting the needs of government operators, military organizations, civil authorities and intelligence gathering agencies.

GULFSTREAM LEASE

In 1998, Gulfstream announced Gulfstream Lease, a venture between the Company and GATX Capital. The venture, Gulfstream GATX Leasing Company, LLC ("GGLC"), has signed a contract to purchase six aircraft (five Gulfstream Vs and one Gulfstream IV-SP) and options to purchase an additional three Gulfstream Vs and three Gulfstream IV-SPs. GGLC is owned 85% by GATX

Capital and 15% by Gulfstream. This program is expected to provide an important vehicle for new Gulfstream aircraft sales, by offering customers an additional solution for their interim aircraft operating needs and introducing customers with less initial capital to Gulfstream's product offerings. Gulfstream will market the leases and provide maintenance services, while GATX Capital will provide account management services.

GULFSTREAM CHARTER AND AIRCRAFT MANAGEMENT SERVICES

The Company has developed Gulfstream Charter Services to provide its customers with easy access to the Gulfstream charter market. The program helps customers meet their interim and supplemental lift requirements by connecting potential Gulfstream charter customers with operators through a private label relationship with a charter services manager. In addition, Gulfstream, in conjunction with Chrysler Pentastar Aviation, Inc., offers Gulfstream Management Services, a program for the management of Gulfstream aircraft. Through this service, individual and corporate owners of Gulfstream aircraft can receive aircrew, dispatch and maintenance management services.

AIRCRAFT FINANCING

The Company, through its subsidiary Gulfstream Financial Services Corporation ("GFSC"), provides customers with access to customized financial products to support the worldwide sale of Gulfstream new and pre-owned aircraft. GFSC representatives typically consult with potential customers to develop the most effective means of financing the purchase of a Gulfstream aircraft for each such customer's specialized needs.

The financial products (including capital and operating leases, loans, tax advantaged leases, like-kind exchange options and Export-Import Bank support) are provided on a competitive basis through a proprietary, private label relationship with a prominent provider of aircraft financing (the "Financing Provider"), that has full credit review and approval rights and assumes all credit risk with no recourse to the Company. Additionally, the Company and the Financing Provider have entered into a re-marketing arrangement which enables the Company to manage the resale of any Gulfstream aircraft whose lease financing period has ended. This private label agreement has a term of five years from 1996 with a minimum lending commitment of \$250 million annually, and can be extended by mutual agreement of the parties.

The Company believes that the access provided by GFSC to financing sources for customers throughout the world serves to expedite and increase sales of new and pre-owned aircraft and also enables the Company to effectively manage the residual values of the Gulfstream fleet.

TRAINING

The Company provides pilot and maintenance training services to its customers as an integral component of the sale of new Gulfstream IV-SP, Gulfstream V and pre-owned Gulfstream aircraft. The Company has long-term agreements with FlightSafety International ("FSI") for the provision of this high quality training service.

FSI maintains and operates training facilities co-located with the Company's Savannah and Long Beach operations. In 1997, FSI completed a new 65,000 square foot training facility adjacent to the Gulfstream Service Center in Savannah. This facility, which became operational in January 1998, contains 21 classrooms, 16 briefing rooms and four CPM (cockpit

procedures modules) rooms. In addition, it houses simulators supporting the entire Gulfstream product line (Gulfstream I through Gulfstream V). Gulfstream facilitates the operation of a Customer Training Advisory Board which provides direct customer and original equipment manufacturer input to FSI's training curriculums and course content.

Additionally, pilot and maintenance training services are provided to Gulfstream owners and operators by SimuFlite Training International ("SimuFlite") located at Dallas-Fort Worth International Airport, Texas. SimuFlite provides training services for Gulfstream II, Gulfstream III and Gulfstream IV aircraft. Gulfstream, in conjunction with SimuFlite, facilitates the operation of a Customer Training Advisory Board which provides direct customer and original equipment manufacturer input to SimuFlite training curriculums and course content.

MATERIALS AND COMPONENTS

Approximately 70% of the production costs of both the Gulfstream IV-SP and the Gulfstream V consist of purchased materials and equipment. Many materials and items of equipment used in the production of the Company's aircraft, such as the engines, wings, landing gear and avionics systems, are purchased from manufacturers, generally pursuant to long-term purchase orders. For the Gulfstream V, the Company has entered into revenue sharing agreements for the wing and empennage. Under these agreements, the revenue share partner is responsible for the detailed design, tooling and manufacture of the systems in exchange for a fixed percentage of revenues of each Gulfstream V sold. The terms of the revenue share agreements with Northrop Grumman Corporation for the wing and Fokker Aviation B.V. for the empennage continue so long as the Company is manufacturing the Gulfstream V and prices are determined as a function of the sale price of the Gulfstream aircraft.

As is typical among general aviation aircraft manufacturers, the Company relies on single source suppliers for complex aircraft components and systems. These single sources are selected based on overall aircraft systems requirements, quality and certification requirements and competitiveness in the market. The Company's major suppliers include Rolls-Royce Commercial Aero Engines Limited (Gulfstream IV-SP engines), BMW Rolls-Royce GmbH (Gulfstream V engines), Honeywell Incorporated (Gulfstream IV-SP and Gulfstream V flight management systems/avionics), The Aerostructures Corporation (Gulfstream IV-SP wing), Northrop Grumman Corporation (Gulfstream V wing revenue share partner and Gulfstream IV-SP nacelle supplier), Fokker Aviation B.V., a subsidiary of Stork B.V., (Gulfstream V empennage revenue share partner), The B.F. Goodrich Co. (Gulfstream IV-SP and Gulfstream V landing gears and air speed sensors), Sundstrand Corp. (Gulfstream V electrical system and actuators) and AlliedSignal, Inc. (Gulfstream IV-SP and Gulfstream V auxiliary power unit and environmental control systems and Gulfstream IV-SP electrical systems). The Company has negotiated multi-year agreements with its major Gulfstream IV-SP and Gulfstream V suppliers. All of the agreements, with the exception of the revenue share agreements, allow schedule flexibility and have no cost termination clauses at the Company's option, subject to certain conditions and prior notification periods.

Suppliers are selected on the basis of their ability to produce high quality systems and components at competitive prices on a timely basis. While the Company's production activities have not been materially affected by the inability to obtain essential components, and while it maintains business interruption insurance in the event that such a disruption should occur, the failure of certain suppliers or subcontractors to meet the

Company's performance specifications, quality standards or delivery schedules could adversely impact the Company's operations. In addition, the Company's ability to significantly increase its production rate could be limited by the ability of its key suppliers to increase their delivery rates; however, in the past, the Company's ability to maintain or increase production has not been significantly limited by suppliers' performance. In addition, under many of its supply contracts, the Company is permitted to increase or decrease the quantity of components or systems being ordered at no cost on six months' notice.

AIRCRAFT SERVICES

Within its Aircraft Services segment, the Company offers aftermarket maintenance services, spare parts, engine overhaul and auxiliary power unit service and overhaul for both Gulfstream and other business jets.

As part of its customer-oriented strategy, the Company is committed to supporting and servicing the Gulfstream aircraft fleet, which presently numbers over 900 aircraft in service. The Company provides worldwide service and support by integrating a network of Company-owned service centers, three levels of authorized third-party service providers, worldwide parts depots, worldwide service representatives and 24 hour-a-day technical/AOG (aircraft on the ground) support.

The Company also provides airframe and engine service and parts support for non-Gulfstream aircraft. As a result of the K-C Aviation acquisition in 1998, Gulfstream now offers services for Challenger, Hawker, Falcon and other aircraft types at their Appleton, WI; Dallas, TX; and Westfield, MA locations. In addition to the incremental revenues and margins that these services generate, they provide the Company with an additional channel to establish new customer relationships with aircraft owners/operators that could ultimately result in the sale of new Gulfstream aircraft.

The Company has license agreements with Marshalls of Cambridge (Cambridge, England), Chrysler's Pentastar Aviation subsidiary (Ypsilanti, Michigan) and Jet Aviation (Singapore) to provide service, maintenance and repairs for Gulfstream aircraft. The licensees provide additional geographic service locations for the expanding Gulfstream fleet. In addition, Jet Aviation Business Jets (Geneva and Basel, Switzerland), Jamco (Japan) and Linden Airtaxi (Sao Paulo, Brazil) serve as authorized warranty centers.

Parts are provided worldwide to Gulfstream and non-Gulfstream aircraft owners and maintenance facilities through a network of nine distribution centers. Sales force initiatives include aggressive new aircraft provision sales, replacement, modification and enhancement sales to existing airframe and engine customers.

The Company markets aircraft support publications and technical documents to its customers and to third party service facilities. Additionally, a proprietary computerized maintenance program ("CMP") is offered as a subscription service to customers for the management and tracking of the maintenance status of their aircraft. Approximately 95% of the Company's customers utilize this service. The Company has instituted a policy requiring third-party maintenance facilities to purchase factory technical support for scheduled maintenance performed on customer aircraft.

Additionally, the Company provides, through its ServiceCareSM program, a comprehensive airframe, engine and avionics maintenance program, which

provides customers of new Gulfstream IV-SPs with scheduled and unscheduled maintenance at guaranteed costs. Coverage is provided on a world-wide basis, with all work to be accomplished at Gulfstream or Gulfstream authorized service centers.

The Company has developed a proactive marketing and sales effort in its maintenance services operations. This has resulted in an increase in the Gulfstream maintenance service market share to approximately 75% in 1998. The Company's estimated market share was approximately 60% in 1997.

PRE-OWNED AIRCRAFT

Pre-owned aircraft are routinely accepted in trade to facilitate the sale of new Gulfstream IV-SPs and Gulfstream Vs. The Company backs pre-owned Gulfstream aircraft with a five year warranty on the airframe structure and a 12 month warranty on virtually all other parts, including the engines under a separate warranty from Rolls-Royce Commercial Aero Engines Limited.

Trade-in values for pre-owned aircraft are based on estimated fair market value ("FMV") at the trade-in date. If the trade-in date is greater than twelve months into the future, the Company's current practice is to reserve the right to determine FMV not more than six months prior to delivery of the green aircraft. Trade-in aircraft are always entered into inventory at the lower of cost or estimated realizable value. Any excess value offered to a customer above estimated realizable value is recognized as a reduction in the revenue received in the new aircraft sale transaction.

Through its trade-in agreements, the Company reserves the right to pre-market the trade-in aircraft prior to acceptance of title from the customer. Over the past several years, the Company has been successful in entering sales agreements on trade-in aircraft prior to acceptance of title. If market conditions change, however, no assurances can be made that the Company can continue this practice.

The Company has provided a portion of its Gulfstream V customers whose contracts are currently in backlog with an option to trade in a Gulfstream aircraft at the time of their Gulfstream V aircraft delivery. These options may be at a specified dollar amount or at FMV "to be determined six months prior to green delivery" of the Gulfstream V. The Company continues to assess those options which are at a fixed dollar amount in light of market conditions and has determined such fixed dollar options are less than the FMV estimated for the time of Gulfstream V aircraft delivery. Although no assurance can be given that the fixed dollar trade-in aircraft values will remain at or below FMV at the time of trade, any adjustments required for values in excess of FMV will be appropriately reflected in the new aircraft sales transaction and the pre-owned inventory will be stated on the Company's books at the lower of cost or estimated realizable value.

BACKLOG

At December 31, 1998, the Company had a financial contract backlog of approximately \$3.3 billion, representing a total of 50 contracts for Gulfstream IV-SPs, 56 contracts for Gulfstream Vs, compared with \$2.8 billion at the end of 1997, representing a total of 43 contracts for Gulfstream IV-SPs and 45 contracts for Gulfstream Vs. Including the 11 undelivered aircraft in the Middle East Shares contract, the Company had a total of 117 aircraft, valued at approximately \$3.6 billion of potential future revenues, under contract at December 31, 1998. This excludes 18

options valued at \$0.7 billion.

During the third quarter of 1998, Gulfstream GATX Leasing Company executed agreements to purchase five Gulfstream Vs and one Gulfstream IV-SP, valued at approximately \$210 million, with deliveries from 1999 through 2001. It also executed options to purchase three Gulfstream Vs and three Gulfstream IV-SPs, valued at approximately \$200 million, with potential deliveries from 2001 through 2004.

During the first quarter of 1998, the Company signed a \$335 million contract for 12 Gulfstream IV-SPs to expand its highly successful Gulfstream Shares fractional ownership program to the Middle East region. The first green aircraft delivery for the Middle East Shares Program occurred during the third quarter of 1998. The remaining 11 undelivered aircraft are not included in the Company's financial contract backlog. In 1993, the Company established very stringent deposit requirements for recording aircraft into its backlog. The contract for the Middle East Shares expansion includes modestly different deposit requirements early in the program. The Company has decided for the initial phase of the program to record these orders into backlog when the aircraft are delivered.

As of December 31, 1998, the Company had contracted to deliver to EJ 44 Gulfstream IV-SPs and 12 Gulfstream Vs in connection with the North American Gulfstream Shares program plus options for additional 12 Gulfstream Vs. Of these, 18 Gulfstream IV-SPs are in service, with the remaining 50 Gulfstream IV-SPs and Gulfstream Vs to be delivered through 2007.

The Company includes an order in financial contract backlog only if the Company has entered into a purchase contract (with no contingencies) with a customer and has received a significant (generally non-refundable) deposit from the customer. Approximately 50% of the Company's contractual backlog is scheduled for delivery beyond 1999. Approximately 80% of the Company's backlog is North American and approximately 20% is international.

Generally, at the signing of a Gulfstream IV-SP or Gulfstream V contract, a customer makes a non-refundable deposit with the Company, and subsequently makes a series of significant progress payments, prior to delivery of the aircraft. The Company monitors the condition of its backlog and believes, based on the nature of its customers and its historical experience, that there will not be a significant number of cancellations. However, to the extent that there is a lengthy period of time between a customer's aircraft order and its expected delivery date, there may be increased uncertainty as to changes in business and economic conditions which may affect customer cancellations.

CUSTOMERS AND MARKETING

The majority of the Company's aircraft are sold to national and multinational corporations and governments. Gulfstream's aircraft are operated by customers in a wide spectrum of industries and customer groups, including: pharmaceuticals, consumer goods, high technology, energy, industrial manufacturing, finance, insurance, real estate, mining, transportation, communications, public utilities, retail trade, the United States government, other sovereign entities and individuals. Seventy-seven percent of the Gulfstream fleet is based in North America and 23% of the fleet is based in 50 countries worldwide. Current owners of Gulfstream aircraft include 32 of the Fortune 50 companies and 119 of the Fortune 500 companies. In addition, the United States government, including all branches of the United States military, and 33 foreign governments operate

Gulfstream aircraft. Gulfstream aircraft provide air transportation for the President, Vice President and other senior members of the United States government. Over 40 Gulfstream aircraft are currently in operation with various United States government agencies, including the FAA.

The diverse Gulfstream customer base combined with wide geographic distribution requires an integrated marketing, communications and sales approach. The Company's marketing and communications program is designed to create general awareness of the Company, and its products and services, while the sales approach is highly personalized and focused on the key decision makers, as well as flight departments and other managers within the customer's organization.

Gulfstream operates an International Advisory Board of 16 prominent international business executives and senior statesmen to advise the Company on international activities in support of the Company's strategic initiatives to further penetrate the international markets.

The Company's marketing and communications program is a carefully integrated combination of business and trade advertising, direct mail, press coverage, trade shows and special events. These activities are specifically developed to create personal selling opportunities for the sales team and senior management with assistance from the Board of Directors and International Advisory Board.

The Company has 28 sales executives located both in North America and around the world. Internationally, the Company also utilizes independent agents who facilitate transactions in selected local markets.

The Company's revenues by geographic area are included on page 38 of Gulfstream's 1998 Annual Report, which information is incorporated herein by reference. During 1996, revenues from one customer, Executive Jet, included in the New Aircraft and Aircraft Services reportable segments, represented approximately 11.7% of the Company's total revenues.

COMPETITION

The business aircraft market generally is divided into four segments -- (light, medium, large and ultra-long range) of aircraft either designed or converted for business use.

The Gulfstream IV-SP competes in the large cabin business aircraft market segment, principally with Dassault Aviation S.A.'s Falcon 900 EX and 900B. The Gulfstream V competes in the ultra-long range business aircraft market segment, primarily with Bombardier's Global Express, and, to a lesser extent, corporate versions of the Boeing 737 and Airbus A319. The Company's competitors may have access to greater resources (including, in certain cases, governmental subsidies) than are available to the Company. The Company believes, however, that it competes favorably with its competitors on the basis of the performance characteristics of its aircraft, the quality, range and timeliness of the service it provides and its innovative marketing techniques. In addition, the Company was able to certify the Gulfstream V significantly in advance of its competition. The Company believes its aircraft's operating costs are comparable to or lower than those of its competitors and that its products are competitively priced.

RESEARCH AND DEVELOPMENT

The Company conducts an internally funded research and development

program primarily for the enhancement of the existing Gulfstream aircraft fleet, through product and process improvement to satisfy changing customer needs and changing regulatory requirements. The Company's research and development efforts have focused on improving operating efficiencies, performance, safety and reliability, reducing pilot workloads, realizing environmental benefits, reducing weight and improving ease of manufacture.

The Company believes that its emphasis on technology and product improvements for aircraft in the Gulfstream fleet has provided and will continue to provide added value for the Gulfstream customer. For aircraft already produced and in service, aircraft changes, which incorporate product improvements, are generally made available for purchase by existing owners of Gulfstream aircraft.

In 1998, the Company announced plans, in collaboration with a division of the Lockheed Martin Corp., to study the feasibility of a supersonic business jet. The study is expected to take 18-24 months and require only an insignificant level of research and development spending. The companies expect that if they do decide to develop such a jet it would not be introduced to the market for at least eight to ten years.

Information regarding the Company's research and development expenditures is contained on page 22 of Gulfstream's 1998 Annual Report, which information is incorporated herein by reference.

REGULATION

In order for an aircraft model to be manufactured for sale, the FAA must issue a Type Certificate and a Production Certificate for the aircraft model and, in order for an individual aircraft to be operated, an Airworthiness Certificate. Type Certificates are issued by the FAA when an aircraft model is determined to meet certain performance, environmental, safety and other technical criteria. The Production Certificate ensures that the aircraft is built to specifications approved under the Type Certificate. An Airworthiness Certificate is issued for a particular aircraft when it is certified to have been built in accordance with specifications approved under the Type Certificate for that particular model aircraft. Gulfstream has never had a Type Certificate or a Production Certificate suspended, nor had any jet aircraft grounded as the result of regulatory action.

All of the Company's aircraft models comply with all currently applicable federal laws and regulations pertaining to aircraft noise and engine emissions. Due to their weight (under 75,000 pounds), all Gulfstream II, III, IV and IV-SP aircraft are currently exempt from the FAA Stage 3 noise requirements. Notwithstanding federal requirements, foreign and local jurisdictions and airport authorities may establish more stringent restrictions pertaining to aircraft noise. Such local and foreign regulations in several locations currently restrict the operation of certain jet aircraft, including the Gulfstream II, IIB and III and certain of their competitors from landing or taking off during late evening and early morning hours. Each of the Gulfstream IV, IV-SP and V aircraft produce noise levels below the FAA's Stage 3 and ICAO's Chapter 3 noise ceilings.

EMPLOYEES

At March 1, 1999, the Company employed approximately 7,740 people, of whom approximately 4,410 were employed at the Company's Savannah, Georgia facility, 130 at the Brunswick, Georgia facility, 630 at the Bethany,

Oklahoma facility, 810 at the Long Beach, California facility, 730 at the Dallas, Texas facility, 370 at the Appleton, Wisconsin facility, 130 at the Westfield, Massachusetts and 530 at the Mexicali, Mexico facility. In 1996, the Company entered into a 5-year contract with the International Union of United Automobile, Aerospace & Agricultural Implement Workers of America, which represents certain employees at the Company's Bethany, Oklahoma plant. The Company considers its overall employee relations to be good.

ENVIRONMENTAL

The Company's operations, in common with those of the industry generally, are subject to various laws and regulations governing, among other things, the handling and disposal of solid and hazardous materials, wastewater discharges and the remediation of contamination associated with the use and disposal of hazardous substances. Because of the nature of its business, the Company has incurred, and will continue to incur, costs relating to compliance with such environmental laws. Although the Company believes that it is in substantial compliance with such environmental requirements, and has not in the past been required to incur material costs in connection therewith, there can be no assurance that the Company's costs to comply with such requirements will not increase in the future. Although the Company is unable to predict what legislation or regulations may be adopted in the future with respect to environmental protection and waste disposal, compliance with existing legislation and regulations has not had, and is not expected to have, a material adverse effect on its capital expenditures, results of operations, or competitive position.

The Company's expenses for remedial environmental matters and capital outlays for environmental compliance were less than \$2.0 million in 1998.

The Company has been named as a Potentially Responsible Party with respect to two cleanup sites, one operated by the Mountaineer Refinery and the other operated by Omega Chemical Company. Based on the Company's limited involvement with such sites, the Company believes that it will not incur material costs in respect of such cleanup sites.

The Company is currently engaged in the monitoring and cleanup of certain groundwater at its Savannah facility under the oversight of the Georgia Department of Natural Resources. The continuing expenses for the cleanup are not expected to be material. The Company believes other aspects of the Savannah facility, as well as other Gulfstream properties, are being carefully monitored and are in substantial compliance with current federal, state and local environmental regulations.

The Savannah facility has been in existence for over 30 years. Like the Savannah facility, certain of the Company's other facilities have been in operation for a number of years and, over such time, these facilities have used substances or generated and disposed of wastes which are or may be considered hazardous. As a result, it is possible that the Company could become subject to additional environmental liabilities in the future in connection with these sites.

ITEM 2. PROPERTIES

The locations and square footage of the Company's principal operating properties at March 1, 1999, are indicated in the following table:

<TABLE>

<CAPTION>

Approximate Square	Lease Expiration
-----------------------	---------------------

Location	Purpose	Footage	Date
<S>	<C>	<C>	<C>
Savannah, Georgia	Corporate offices, principal manufacturing facility, aircraft services and engineering	1,500,000	Owned
Brunswick, Georgia	Aircraft services and completions	53,000	May 31, 1999
Long Beach, California	Aircraft services and completions	250,000	Owned
	Aircraft services and completion	62,000	August 14, 1999
	Aircraft completions	22,000	March 31, 2000
	Aircraft painting	59,000	Owned
Dallas, Texas	Aircraft services and completions	200,000	Owned
	Aircraft services and completions	35,000	January 1, 2003
	Aircraft services and completions	57,000	October 31, 2001
	Engine and auxiliary power unit maintenance and overhaul	48,000	April 30, 2002
Appleton, Wisconsin	Aircraft services and completions	120,000	Owned
	Aircraft services	35,000	August 31, 2001
Westfield, Massachusetts	Aircraft services	50,000	Owned
	Aircraft services	20,000	July 31, 2000
Oklahoma City, Oklahoma	Manufacturing operations	500,000	December 31, 2007
Mexicali, Mexico	Manufacturing operations	75,000	December 31, 1999

</TABLE>

Any prolonged disruptions in the use of a major facility due to destruction of or material damage to such facility, or other reasons, could have an adverse effect on the Company's operations. The Company maintains property and business interruption insurance to protect against any such disruption, but there can be no assurance that the proceeds of such insurance would be adequate to repair or rebuild its facilities in such event or to compensate the Company for losses incurred during the period of any such disruption.

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in a lawsuit instituted on December 12, 1992 and pending in Oklahoma styled KMC Leasing, Inc. et al. v. Gulfstream Aerospace Corporation et al. (District Court, State of Oklahoma, Oklahoma County, Case No. CJ 92 10313). This action arises from claims relating to potential damage from corrosion and fatigue fractures on wing spars and requirements to inspect and possibly replace wing spars in certain

aircraft. These aircraft were part of a product line which was discontinued in 1985 and sold during 1989. This lawsuit is not an insured claim. Other than an allegation that the plaintiffs' damages exceed jurisdictional requirements, the plaintiffs have not specified a dollar value of the extent of their damages. The Company believes it has meritorious defenses to all these claims based upon the facts that underlie them. Class certification has been denied, but plaintiffs have filed an appeal. The Company does not expect the results in this action to have a material adverse effect on its financial condition or results of operations. Although there are other lawsuits pending involving the Company's discontinued light aircraft product lines, those claims are (i) covered by the General Aviation Revitalization Act of 1994, which is a federal statute of repose, (ii) the responsibility of the purchasers of those light aircraft product lines, or (iii) covered by the Company's product liability insurance. There are no accident or incident claims pending with respect to any Gulfstream jet aircraft.

The Company maintains product liability insurance coverage of \$500 million per occurrence and in the aggregate per year, subject to \$10 million of self-insurance retention. Management believes this coverage is adequate.

The Company is involved in tax audits by the Internal Revenue Service covering the years 1990 through 1994. The revenue agent's reports include several proposed adjustments involving the deductibility of certain compensation expense, items relating to the initial capitalization of the Company, the allocation of the original purchase price for the acquisition by the Company of the Gulfstream business, including the treatment of advance payments with respect to the cost of aircraft that were in backlog at the time of the acquisition, and the amortization of amounts allocated to intangible assets. The Company believes that the ultimate resolution of these issues will not have a material adverse effect on its financial statements because the financial statements already reflect what the Company currently believes is the expected loss of benefit arising from the resolution of these issues. However, because the revenue agent's reports are proposing adjustments in amounts materially in excess of what the Company has reflected in its financial statements and because it may take several years to resolve the disputed matters, the ultimate extent of the Company's expected loss of benefit and the liability with respect to these matters cannot be predicted with certainty and no assurance can be given that the Company's financial position or results of operations will not be adversely affected.

The Company is also involved in other litigation, including product and general liability matters, and governmental proceedings arising in the ordinary course of its business, the ultimate disposition of which in the opinion of the Company's management, will not have a material adverse effect on the financial position or results of operations of the Company.

See also -- Item 1. "Business -- Environmental."

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISKS AND UNCERTAINTY
Certain statements contained in or incorporated by reference in this Form 10-K contain forward-looking information. These forward-looking statements are subject to risks and uncertainties. Actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those contained in the forward-looking statements is contained in Exhibit 99, CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE

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

No matters were submitted to a vote of the Company's security holders during the last quarter of the year ended December 31, 1998.

ADDITIONAL ITEM. EXECUTIVE OFFICERS OF THE COMPANY

The following paragraphs set forth the name, age and offices with the Company of each present executive officer of the Company, the period during which each executive officer has served as such and each executive officer's business experience during the past five years:

Theodore J. Forstmann, age 59, has served as Chairman of the Board of the Company since November 1993 and as Chief Executive Officer since December 1998. Mr. Forstmann has been a general partner of FLC Partnership, L.P. since he co-founded Forstmann Little & Co. in 1978. He is also a director of General Instrument Corporation. Theodore J. Forstmann and Nicholas C. Forstmann are brothers.

W.W. Boisture, Jr., age 54, has served as President and Chief Operating Officer of the Company since December 1998 and as a director since February 1995 and is a member of the Office of the Chief Executive. Mr. Boisture served as Executive Vice President from February 1994 to December 1998. Prior to joining the Company, he was President and Chief Executive Officer of British Aerospace Corporate Jets from October 1992 through 1993, where he was responsible for the "Hawker" business jet product line and its worldwide marketing, sales and support organization. From early 1990 to 1992, Mr. Boisture was Chairman, President and Chief Executive Officer of Butler Aviation, a nationwide aviation services company.

Chris A. Davis, age 48, has served as Executive Vice President and Chief Financial Officer of the Company since July 1993, Secretary since August 1996, Chief Administrative Officer since December 1998 and a director since March 1997 and is a member of the Office of the Chief Executive. She is also President and Chief Operating Officer of Gulfstream Financial Services Corporation. Ms. Davis served in increasingly senior financial management positions at General Electric Company from 1978 to 1993, most recently as chief financial officer of its Electronic Systems Division. Ms. Davis is also a director of Wolverine Tube, Inc.

Bryan T. Moss, age 59, has served as Vice Chairman and a director of the Company since March 1995. Prior to joining the Company, he was President of Bombardier Business Aircraft Division, where he was responsible for the Challenger and Global Express business jet programs from 1989 to March 1995.

Ira P. Berman, age 37, has served as Senior Vice President and General Counsel of the Company since March 1997. Before joining the Company, Mr. Berman was a partner in the corporate department of the law firm of Fried, Frank, Harris, Shriver & Jacobson, New York, New York, from September 1997 to March 1998, and an associate from June 1996 to September 1997.

G. Kenneth Burckhardt, age 44, has served as Senior Vice President,

Finance of the Company since December 1998. Mr. Burckhardt served as Vice President, Finance from June 1996 to December 1998 and Director of Finance from December 1994 to June 1996. Prior to joining the Company, he was Director, Financial Planning & Analysis of a division of GE Capital Corp. from September 1991 to December 1994.

Patrick C.G. Coulter, age 58, has served as the Company's Senior Vice President, Corporate Communications since January 1999. Prior to joining the Company, he was Vice President of Communications for The Boeing Company Commercial Airplane Group from July 1997 to December 1998. Mr. Coulter was Vice President of Corporate Communications for Bell Atlantic Corporation from July 1995 to June 1997, and Director of Corporate Communications of The Raytheon Company from January 1991 to July 1995.

Larry R. Flynn, age 47, has served as Senior Vice President, Aircraft Services since December 1998. Mr. Flynn was Vice President, Aircraft Services from June 1995 to December 1998. Prior to joining the Company, Mr. Flynn served as Vice President of Stevens Aviation from April 1993 to May 1995.

Preston A. Henne, age 51, has served as the Company's Senior Vice President, Programs since September 1994. He was employed by McDonnell Douglas Corporation from July 1969 to August 1994, most recently as Vice President & General Manager.

Joseph T. Lombardo, age 51, has served as Senior Vice President, Operations of the Company since December 1998. Mr. Lombardo served as Vice President, Co-Production from June 1996 to December 1998. Prior to joining the Company, he was Director of Twin-Jet Production at McDonnell Douglas from February 1993 to June 1996.

Joseph K. Walker, age 45, has served as Senior Vice President, Sales & Marketing of the Company since December 1998. Mr. Walker served as the Company's Senior Vice President, International Sales from September 1997 to December 1998, and as Vice President, North American Sales from 1995 to September 1997. Prior to joining the Company, Mr. Walker served as Vice President, Worldwide Sales of Cessna Aircraft, Inc. from 1994 to 1995.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Information required by this Item is contained on page 40 of Gulfstream's 1998 Annual Report, which information is incorporated herein by reference. At December 31, 1998, the Company's Credit Agreement prohibited the payment of dividends.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item is included under the caption "Selected Financial Data" on page 41 of Gulfstream's 1998 Annual Report, and that information is hereby incorporated by reference in this Form 10-K.

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

Information required by this Item is included in "Management's

Discussion and Analysis" on pages 20 to 25 of Gulfstream's 1998 Annual Report, incorporated herein by reference.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Information required by this Item is included in the Consolidated Financial Statements of the Company for the years ended December 31, 1998, 1997 and 1996, the Notes to the Consolidated Financial Statements, and the independent auditors' report thereon on pages 26 to 39 of the 1998 Annual Report, and in the Company's unaudited quarterly financial data for the years ended December 31, 1998 and 1997 on page 40 of Gulfstream's 1998 Annual Report, incorporated herein by reference.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item is included in the 1999 Proxy Statement in the section captioned "Election of Directors," and such information is incorporated herein by reference. Information required by this Item concerning compliance with Section 16(a) of the Securities Exchange Act of 1934 is included in the 1999 Proxy Statement in the section captioned "Section 16(a) Beneficial Ownership Reporting Compliance," and such information is incorporated herein by reference. Information concerning executive officers required by this Item 10 is located under Part I, Additional Item on pages 14 and 15 of this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is included in the 1999 Proxy Statement in the sections captioned "Further Information Concerning the Board of Directors and Committees -- Compensation Committee Interlocks and Insider Participation" and "-- Director Compensation" and in the section captioned "Compensation of Executive Officers" (other than the subsections thereof captioned "Committee Reports on Executive Compensation" and "Performance Graph"), and such information (other than the subsections thereof captioned "Committee Reports on Executive Compensation" and "Performance Graph") is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is included in the 1999 Proxy Statement in the section captioned "Security Ownership of Certain Beneficial Owners and Management," and such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is included in the 1999 Proxy Statement in the sections captioned "Further Information Concerning the Board of Directors and Committees -- Compensation Committee Interlocks and Insider Participation" and "Related Party Transactions," and such information is incorporated herein by reference. See also, Note 12 to the

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	FORM 10-K (PAGE)	1998 ANNUAL REPORT (PAGE)
	-----	-----
(a) FINANCIAL STATEMENTS		
Consolidated Statements of Income for the years ended December 31, 1998, 1997, and 1996		26
Consolidated Balance Sheets at December 31, 1998 and December 31, 1997		27
For the years ended December 31, 1998, 1997, and 1996:		
Consolidated Statements of Stockholders' Equity		28
Consolidated Statements of Cash Flows		29
Notes to Consolidated Financial Statements		30-38
Independent Auditors' Report		39
Supplementary Information (Unaudited)		
Quarterly Financial Results for 1998 and 1997		40
FINANCIAL STATEMENT SCHEDULES		
Independent Auditors' Report		19
I. Condensed financial information		20-21
II. Valuation and qualifying accounts		22

All other schedules have been omitted because they are not applicable, not required or the information required is included in the consolidated financial statements or notes thereof.

EXHIBITS

The exhibits are listed in the accompanying Index to Exhibits on pages 26 to 30.

(b) REPORTS ON FORM 8-K

None in the fourth quarter of 1998.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Gulfstream Aerospace Corporation:

We have audited the consolidated balance sheets of Gulfstream Aerospace Corporation and subsidiaries (the "Company") as of December 31, 1998 and 1997 and the related consolidated statements of income, stockholders' equity and cash flows for the three years in the period ended December 31, 1998, and have issued our report thereon dated February 1, 1999 (March 1, 1999 as to Note 16); such financial statements and report are included in the Company's 1998 Annual Report and are incorporated herein by reference. Our audits also included the consolidated financial statement schedules of the Company, listed in Item 14 of Form 10-K. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, such consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

DELOITTE & TOUCHE LLP
Atlanta, Georgia
February 1, 1999

GULFSTREAM AEROSPACE CORPORATION
(PARENT COMPANY ONLY)

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION

BALANCE SHEETS

AS OF DECEMBER 31, 1998 AND 1997
(IN THOUSANDS, EXCEPT FOR SHARE AMOUNTS)

ASSETS

	1998	1997
	-----	-----
	-----	-----
Investment in subsidiary	\$ 310,538	\$ 200,895
	=====	=====
Total Assets	310,538	200,895
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

	1998	1997
	-----	-----
Payable to subsidiary	\$ 14,858	\$ 8,138
Note Payable to subsidiary	100,000	100,000
	-----	-----
Total liabilities	114,858	108,138
	-----	-----

Stockholders' equity:

Preferred stock; Series A, 7% Cumulative; \$.01 par value; 20,000,000 shares authorized; no shares outstanding	-	-
Common stock, \$.01 par value; 300,000,000 shares authorized; Shares issued: 89,818,774 and 86,522,089	898	865
Additional paid-in capital	444,301	370,258
Accumulated deficit	(672)	(225,960)
Accumulated other comprehensive income	(2,441)	(762)
Unamortized stock plan expense	(52)	(1,155)
Less: Treasury stock: 17,244,581 and 11,978,439 shares	(246,354)	(50,489)
	-----	-----
Total stockholders' equity	195,680	92,757
	=====	=====
Total Liabilities and Stockholders' Equity	\$ 310,538	\$ 200,895
	=====	=====

Notes:

- (1) The Company accounts for its investment in its subsidiary using the equity method of accounting.
- (2) The Company received cash dividends in 1996 of approximately \$355.0 million from its subsidiary in satisfaction of intercompany balances.

See notes to Consolidated Financial Statements included in the 1998 Annual Report, incorporated herein by reference.

GULFSTREAM AEROSPACE CORPORATION
(PARENT COMPANY ONLY)

SCHEDULE I -- CONDENSED FINANCIAL INFORMATION

STATEMENTS OF INCOME

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	-----	-----	-----
Interest expense	\$ (6,720)	\$ (6,720)	\$ (1,418)
Net income of subsidiary	232,008	249,731	48,383
	-----	-----	-----
Net income	\$ 225,288	\$243,011	\$ 46,965
Other comprehensive income, net of tax	(1,679)	702	(14)
	-----	-----	-----
Total comprehensive income	\$ 223,609	\$243,713	\$ 46,951
	=====	=====	=====

Statements of cash flows are not presented since the Parent Company had no cash flows from operations.

See notes to Consolidated Financial Statements included in the 1998 Annual Report, incorporated herein by reference.

<TABLE>

GULFSTREAM AEROSPACE CORPORATION

SCHEDULE II -- CONDENSED SCHEDULE OF VALUATION AND QUALIFYING
ACCOUNTS FOR THE YEARS ENDED DECEMBER 31, 1996, 1997, AND 1998

(IN THOUSANDS)

<CAPTION>

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS (1)	DEDUCTIONS (2)	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
Allowance for Doubtful Accounts:					
Year ended December 31, 1996	\$ 3,437	\$ 344	\$ -	\$ 538	\$ 3,243
Year ended December 31, 1997	3,243	(1,588)	-	511	1,144
Year ended December 31, 1998	1,144	326	1,484	429	2,525

<FN>

(1) The amount of \$1,484 represents amounts assumed in connection with the acquisition of K-C Aviation. See Note 2 to the Consolidated Financial Statements included in the 1998 Annual Report, incorporated herein by reference.

(2) Deductions from the allowance for doubtful accounts represent the write-off of uncollectible accounts.

</FN>

</TABLE>

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 on this 29th day of March 1999.

GULFSTREAM AEROSPACE CORPORATION

By: /s/Chris A. Davis

Chris A. Davis
Executive Vice President &
Chief Financial & Administrative Officer
and Secretary

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
-----	-----	-----
/s/Theodore J. Forstmann ----- Theodore J. Forstmann	Chairman of the Board, Chief Executive Officer and Director	March 29, 1999
/s/W. W. Boisture, Jr. ----- W. W. Boisture, Jr.	President, Chief Operating Officer and Director	March 29, 1999
/s/Chris A. Davis ----- Chris A. Davis	Executive Vice President, Chief Financial & Administrative Officer, Secretary and Director (Principal Financial Officer and Principal Accounting Officer)	March 29, 1999
/s/Bryan T. Moss ----- Bryan T. Moss	Vice Chairman of the Board and Director	March 29, 1999
/s/Robert Anderson ----- Robert Anderson	Director	March 29, 1999
/s/Charlotte L. Beers ----- Charlotte L. Beers	Director	March 29, 1999
/s/Thomas D. Bell, Jr. ----- Thomas D. Bell, Jr.	Director	March 29, 1999

/s/Lynn Forester	Director	March 29, 1999
----- Lynn Forester		
/s/Nicholas C. Forstmann	Director	March 29, 1999
----- Nicholas C. Forstmann		
/s/Sandra J. Horbach	Director	March 29, 1999
----- Sandra J. Horbach		
/s/James T. Johnson	Director	March 29, 1999
----- James T. Johnson		
/s/Henry A. Kissinger	Director	March 29, 1999
----- Henry A. Kissinger		
/s/Drew Lewis	Director	March 29, 1999
----- Drew Lewis		
/s/Mark H. McCormack	Director	March 29, 1999
----- Mark H. McCormack		
/s/Michael S. Ovitz	Director	March 29, 1999
----- Michael S. Ovitz		
/s/Allen E. Paulson	Director	March 29, 1999
----- Allen E. Paulson		
/s/Roger S. Penske	Director	March 29, 1999
----- Roger S. Penske		

/s/Colin L. Powell Director March 29, 1999

Colin L. Powell

/s/Gerard R. Roche Director March 29, 1999

Gerard R. Roche

/s/Donald H. Rumsfeld Director March 29, 1999

Donald H. Rumsfeld

/s/George P. Shultz Director March 29, 1999

George P. Shultz

/s/Robert S. Strauss Director March 29, 1999

Robert S. Strauss

GULFSTREAM AEROSPACE CORPORATION
INDEX TO EXHIBITS

Exhibit	Description
2.1	Agreement of Purchase and Sale, dated as of July 23, 1998 by and between Kimberly-Clark Corporation and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.28 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.)
3.1	Restated Certificate of Incorporation of the Company. (Incorporated herein by reference to Exhibit 3.1 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
3.2	Restated By-Laws of the Company. (Incorporated herein by reference to Exhibit 3.2 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
4.1	Specimen Form of Company's Common Stock Certificate. (Incorporated herein by reference to Exhibit 4.1 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
10.1	Gulfstream Aerospace Corporation Pension Plan, amended and restated January 1, 1989, as amended ("GAC Pension Plan"). (Incorporated herein by reference to Exhibit 10.1 of Registrant's Registration Statement on Form S-1, No. 333-09897.) **

- 10.2 First Amendment to GAC Pension Plan, dated December 10, 1996. (Incorporated herein by reference to Exhibit 10.2 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.)**
- 10.3 Gulfstream Aerospace Corporation Supplemental Executive Retirement Plan, effective as of April 1, 1991. (Incorporated herein by reference to Exhibit 10.2 of Registrant's Registration Statement on Form S-1, No. 333-09897.)**
- 10.4 Gulfstream Aerospace Corporation November 1, 1991 Supplemental Executive Retirement Plan. (Incorporated herein by reference to Exhibit 10.3 of Registrant's Registration Statement on Form S-1, No. 333-09897.)**
- 10.5 Form of Indemnification Agreement between the Company and its directors and executive officers. (Incorporated herein by reference to Exhibit 10.4 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.6 Form of Outside Director Stock Option Agreement. (Incorporated herein by reference to Exhibit 10.5 of Registrant's Registration Statement on Form S-1, No. 333-09897.)**
- 10.7 Form of Outside Director Stockholder's Agreement. (Incorporated herein by reference to Exhibit 10.6 of Registrant's Registration Statement on Form S-1, No. 333-09897.)**
- 10.8 [Reserved]
- 10.9 Form of Employee Stock Option Agreement. (Incorporated herein by reference to Exhibit 10.9 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.)**
- 10.10 Form of Employee Stockholder's Agreement. (Incorporated herein by reference to Exhibit 10.10 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1996.)**
- 10.11 Lease Agreement, dated as of February 22, 1995, between Oklahoma City Airport Trust and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.11 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.)
- 10.12 Lease Agreement, dated as of March 14, 1989, between City of Long Beach and 7701 Woodley Avenue Corporation d/b/a Gulfstream Aerospace. (Incorporated herein by reference to Exhibit 10.12 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.13 Form of Lease Agreements, dated January 1, 1994 between Immuebles El Vigia, S.A., and Interiores Aeros, S.A. De C.V. (Incorporated herein by reference to Exhibit 10.13 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.14 Lease Agreement, dated May 1, 1996, between Immuebles El Vigia, S.A., and Interiores Aeros, S.A. De C.V. (Incorporated herein by reference to Exhibit 10.14 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.15 Sublease Agreement, dated June 1, 1992, between Brunswick and Glynn

County Development Authority and Gulfstream Aerospace Corporation.
(Incorporated herein by reference to Exhibit 10.15 of Registrant's
Registration Statement on Form S-1, No. 333-09897.)

- 10.16 Credit Agreement, dated as of October 16, 1996, among Gulfstream Delaware Corporation, The Chase Manhattan Bank, and the banks and other financial institutions parties thereto (including guaranty and pledge agreement). (Incorporated herein by reference to Exhibit 10.16 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.)
- 10.17 Registration Rights Agreement, among Gulfstream Aerospace Corporation, Gulfstream Delaware Corporation, Gulfstream Partners, Gulfstream Partners II, L.P., and MBO-IV. (Incorporated herein by reference to Exhibit 10.17 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.18 Repurchase Agreement, dated as of May 15, 1996, between Gulfstream Aerospace Corporation and MBO-IV. (Incorporated herein by reference to Exhibit 10.18 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.19 Repurchase Agreement, dated as of August 8, 1996, between Gulfstream Aerospace Corporation and MBO-IV. (Incorporated herein by reference to Exhibit 10.19 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.20 Amendment No. 1 to Sublease Agreement, dated May 23, 1996, by and between Brunswick and Glynn County Development Authority and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.20 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.21 Amendment No. 2 to Sublease Agreement, dated May 25, 1996, by and between Brunswick and Glynn County Development Authority and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.21 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.22 Agreement, effective August 9, 1996, between Gulfstream Aerospace Technologies and the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America Local #2130. (Incorporated herein by reference to Exhibit 10.22 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.23 Lease Agreement, dated as of August 27, 1996, between Long Beach Million Air, Inc. and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.23 of Registrant's Registration Statement on Form S-1, No. 333-09897.)
- 10.24 Outfitted Gulfstream V Sales Agreement dated June 13, 1997 between Gulfstream Aerospace Corporation and Allen E. Paulson. (Incorporated herein by reference to Exhibit 10.24 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.)
- 10.25 Marketing Services Agreement dated June 13, 1997 between Gulfstream Aerospace Corporation and Allen E. Paulson. (Incorporated herein by reference to Exhibit 10.25 of Registrant's Quarterly Report on Form 10-Q for the quarter

ended June 30, 1997.)

- 10.26 Gulfstream IV Aircraft Purchase Agreement and amendment to Outfitted Gulfstream V Sales Agreement dated August 1, 1997 between Gulfstream Aerospace Corporation and Allen E. Paulson. (Incorporated herein by reference to Exhibit 10.26 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.)
- 10.27 Amended and Restated Gulfstream Aerospace Corporation 1990 Stock Option Plan, as further amended through July 30, 1997. (Incorporated herein by reference to Exhibit 10.27 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997.)**
- 10.28 Amendment dated December 24, 1997 to Credit Agreement among Gulfstream Delaware Corporation, The Chase Manhattan Bank, and the banks and other financial institutions parties thereto. (Incorporated herein by reference to Exhibit 10.28 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.)
- 10.29 Agreement dated December 24, 1997 between Gulfstream Aerospace Corporation and its wholly owned subsidiaries, Gulfstream Delaware Corporation, Gulfstream Aerospace Corporation, a Georgia Corporation and the Pension Benefit Guaranty Corporation. (Incorporated herein by reference to Exhibit 10.29 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.)
- 10.30 Lease Agreement, dated April 11, 1997, between Aeroplex Aviation and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.30 of Registrant's Annual Report on Form 10-K for the year ended December 31, 1997.)
- 10.31 Amendment dated February 26, 1998 to Credit Agreement among Gulfstream Delaware Corporation, The Chase Manhattan Bank, and the banks and other financial institutions parties thereto. (Incorporated herein by reference to Exhibit 10.31 of Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998.)
- 10.32 Amendment dated July 15, 1998 to Credit Agreement among Gulfstream Delaware Corporation, The Chase Manhattan Bank, and the banks and other financial institutions parties thereto. (Incorporated herein by reference to Exhibit 10.32 of Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.)
- 10.33 Amendment dated October 6, 1998 to Credit Agreement among Gulfstream Delaware Corporation, The Chase Manhattan Bank, and the banks and other financial institutions parties thereto. (Incorporated herein by reference to Exhibit 10.33 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.34 Lease Agreement, dated January 1, 1998, by and between Immuebles El Vigia, S.A., and Interiores Aeroes, S.A. De C.V. (Incorporated herein by reference to Exhibit 10.34 of Registrant's Quarterly Report on Form 10-Q for the quarter

ended September 30, 1998.)

- 10.35 Amendment No. 3 to Sublease Agreement, dated February 23, 1998, by and between the Brunswick and Glynn County Development Authority and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.35 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.36 Amendment No. 4 to Sublease Agreement, dated March 23, 1998, by and between the Brunswick and Glynn County Development Authority and Gulfstream Aerospace Corporation. (Incorporated herein by reference to Exhibit 10.36 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.37 Lease Agreement, dated January 25, 1968, by and between Outagamie County, Wisconsin and K-C Aviation Incorporated which was assigned to K-C Aviation on October 9, 1980; as amended by Addendum No. 1, dated December 24, 1980, Addendum No. 2, dated February 9, 1988, Addendum No. 3 dated January 26, 1989, Addendum No. 4 dated October 22, 1996, and Addendum No. 5 to Lease Agreement, dated March 11, 1997. (Incorporated herein by reference to Exhibit 10.37 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.38 Lease Agreement, dated February 1, 1978, by and between City of Dallas and K-C Aviation, Incorporated for lease of land and facility at Dallas Love Field; as amended by Agreement Amending Lease dated October 28, 1981, Second Amendment dated June 1, 1989, and that certain letter from the City of Dallas to K-C Aviation dated December 9, 1997. (Incorporated herein by reference to Exhibit 10.38 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.39 Sublease Agreement, dated January 17, 1989, by and between Dalfort Aviation Services, a division of Dalfort Corporation and K-C Aviation, Incorporated, as amended by that certain First Additional Agreement effective January 17, 1989. (Incorporated herein by reference to Exhibit 10.39 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.40 Sublease Agreement, dated December 1, 1996, by and between Dallas Airmotive, Incorporated and K-C Aviation, Incorporated. (Incorporated herein by reference to Exhibit 10.40 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.41 Lease Agreement, dated May 1, 1997, by and between Carpenter Freeway Properties and K-C Aviation, Incorporated. (Incorporated herein by reference to Exhibit 10.41 of Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998.)
- 10.42 Amendment dated December 2, 1998 to the Amended and Restated Gulfstream Aerospace Corporation 1990 Stock Option Plan.* **
- 10.43 Form of Stock Option Agreement effective December 1998.* **
- 10.44 Form of Stock Option Agreement for partners or employees of FLC Partnership effective December 1998.* **

- 10.45 Fifth Amendment dated March 1, 1999 to Credit Agreement among Gulfstream Delaware Corporation, The Chase Manhattan Bank, and the banks and other financial institutions parties thereto.*
- 10.46 Secured Promissory Note dated November 30, 1998 between Gulfstream Aerospace Corporation and The CIT Group/Equipment Financing, Inc.*
- 10.47 Secured Promissory Note dated November 30, 1998 between Gulfstream Aerospace Corporation and The CIT Group/Equipment Financing, Inc.*
- 10.48 Secured Promissory Note dated November 30, 1998 between Gulfstream Aerospace Corporation and The CIT Group/Equipment Financing, Inc.*
- 10.49 Form of Security Agreement, dated as of November 30, 1998 by and between Gulfstream Aerospace Corporation, as Borrower and The CIT Group/Equipment Financing, Inc., as Secured Party.*
- 10.50 Form of Guaranty Agreement, dated November 30, 1998, given in connection with the Security Agreement and Promissory Note, between Gulfstream Aerospace Corporation, as Borrower and The CIT Group/Equipment Financing, Inc., as Secured Party.*
- 13.1 Annual Report to Stockholders for fiscal year ended December 31, 1998. (The 1998 Annual Report, except for those portions thereof which are expressly incorporated by reference in this Annual Report on Form 10-K, is being furnished for the information of the Commission and is not to be deemed "filed" as part of the Form 10-K.)*
- 21.1 Subsidiaries of the Company.*
- 27.1 Financial Data Schedule - Fiscal 1998.*
- 99.1 Cautionary Statement for Purpose of the "Safe Harbor" Provisions of The Private Securities Litigation Reform Act of 1995.*

** Management contract or compensatory plan.

* Filed herewith.

RESOLUTION ADOPTED BY THE EXECUTIVE COMMITTEE
OF THE BOARD OF DIRECTORS OF
GULFSTREAM AEROSPACE CORPORATION
ON DECEMBER 2, 1998

RESOLVED, that the number of shares of common stock of the Corporation, par value \$.01 per share, available for issuance under the Corporation's 1990 Stock Option Plan, as amended, be, and hereby is, increased by 500,000 shares.

STOCK OPTION AGREEMENT (the "Agreement"), dated as of _____, 19__, between Gulfstream Aerospace Corporation, a Delaware corporation (together with its successors the "Corporation"), and _____ (the "Optionee").

1. Grant of Option.

1.1 The Corporation hereby grants to the Optionee the right and option (the "Option") to purchase all or any part of an aggregate of _____ whole shares of Common Stock, par value \$.01 per share, of the Corporation (the "Common Stock") (such number being subject to adjustment as provided in Section 8 hereof) on the terms and conditions set forth in this Agreement and in the Corporation's Stock Option Plan (the "Plan"), a copy of which has previously been provided to the Optionee.

1.2 This Option is not intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code.

1.3 Except as otherwise defined herein, capitalized terms used in this Agreement shall have the same definitions as set forth in the Plan.

2. Purchase Price. The price at which the Optionee shall be entitled to purchase shares of Common Stock upon the exercise of this Option shall be \$_____ per share (such price being subject to adjustment as provided in Section 8 hereof) (the "Option Price").

3. Duration of Option. The Option shall be exercisable to the extent and in the manner provided herein for a period of 10 years from the date hereof; provided, however, that the Option may be earlier terminated as provided in Section 4, Section 6, Section 7 or Section 9 hereof.

4. Exercisability of Options.

(a) Subject to the provisions of this Agreement and the Plan, the Option shall be exercisable in accordance with the following schedule:

(i) on or after _____, ____ but before _____, _____, the Option may be exercised to acquire up to one-third of the total number of shares of Common Stock which may be purchased pursuant to the Option as set forth in Section 1.1 hereof, less any shares previously acquired pursuant to the Option;

(ii) on or after _____, ____ but before _____

_____, _____, the Option may be exercised to acquire up to two-thirds of the total number of shares of Common Stock which may be purchased pursuant to the Option as set forth in Section 1.1, less any shares previously acquired pursuant to the Option; and

(iii) on or after _____, _____ but before the expiration of the term of the Option, the Option may be exercised to acquire up to 100% of the total number of shares of Common Stock which may be purchased pursuant to the Option as set forth in Section 1.1, less any shares previously acquired pursuant to the Option.

(b) The Corporation shall give the Optionee 10 days' written notice (or, if not practicable, such shorter notice as may be practicable) prior to the anticipated date of the consummation of a Terminating Event (as hereinafter defined), and the Optionee shall be permitted to exercise the Option for a period of 5 days (or such shorter period as the Committee shall determine and so notify the Optionee) after the date of such notice of the Terminating Event. In the case of a Terminating Event, the Option may be exercised, in whole or in part, for the full amount of the shares of Common Stock covered thereby (less the number of shares previously issued to the Optionee upon exercise of the Option), whether or not the Option was otherwise so exercisable on the date such notice was given. In the event the Terminating Event is not consummated, the Option will be deemed not to have been exercised and shall be exercisable thereafter only to the extent it would have been exercisable if no such notice had been given. In lieu of permitting the Optionee to exercise the Option in the event of a Terminating Event, the Committee, in its sole discretion, may instead cause the Corporation to redeem the unexercised portion of the Option pursuant to Section 9 hereof.

For purposes hereof, the term "Terminating Event" shall mean the consummation of any of the following transactions: (i) any merger or consolidation of the Corporation with or into another corporation (other than a merger or consolidation in which the Corporation is the surviving corporation and which does not result in any capital reorganization or reclassification or other change of the then outstanding shares of Common Stock), or (ii) the liquidation or dissolution of the Corporation, or (iii) the sale or other disposition to any person (other than a subsidiary or an Affiliate of the Corporation) of all or substantially all of the assets of the Corporation pursuant to a plan of liquidation or otherwise.

Subject to the provisions of Section 9 hereof, the Option shall be canceled simultaneously with the consummation of a Terminating Event to the extent that the Option has not theretofore been exercised.

(c) Notwithstanding the foregoing Section 4(a) of this Agreement, in the event of a Change in Control (as defined in Exhibit A attached hereto), the Option shall become immediately and fully exercisable.

5. Manner of Exercise and Payment.

5.1 Notice of Exercise. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised by delivery of written notice to the Committee, at the Corporation's principal office (or such other address as the Corporation may from time to time notify the Optionee in writing). Such notice shall state that the Optionee is electing to exercise the Option and the number of shares of Common Stock in respect of which the Option is being exercised and shall be signed by the Optionee or by any guardian, executor, administrator or other legal representative (each, a "Legal Representative"). The Corporation may require proof satisfactory to it as to the right of such person to exercise the Option.

5.2 Deliveries. The notice of exercise described in Section 5.1 hereof shall be accompanied by (a) the full purchase price for the shares in respect of which the Option is being exercised, such purchase price to be paid by certified or bank check payable to the order of the Corporation or cash by wire transfer to an account designated by the Corporation. Not less than 250 shares of Common Stock may be purchased at any one time upon the exercise of an Option, unless the number of shares of Common Stock so purchased constitutes the total number of shares of Common Stock then purchasable under the Option.

5.3 Issuance of Shares. Upon receipt of notice of exercise, full payment for the shares of Common Stock in respect of which the Option is being exercised, and subject to Section 10 of the Plan, the Corporation shall take such action as may be necessary under applicable law to effect the issuance to the Optionee of the number of shares of Common Stock as to which such exercise was effective.

5.4 Stockholder Rights. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to the Option until: (a) the Option shall have been exercised pursuant to the terms of this Agreement and the Optionee shall have paid the full purchase price for the number of shares in respect of which the Option was exercised and any withholding taxes due in connection with such exercise, (b) the Corporation shall have issued the shares to the Optionee, and (c) the Optionee's name shall have been entered as a stockholder of record on the books of the Corporation. Upon the occurrence of all of the foregoing events, the Optionee shall have full voting and other ownership rights with respect to such shares.

6. Certain Restrictions.

6.1 No Sale or Transfer. The Optionee shall not sell, transfer, assign, exchange, pledge, encumber or otherwise dispose of the Option, in whole or in part, except in accordance with the provisions of this Agreement.

6.2 Employment Termination. Except (i) as provided in this Section 6.2 or (ii) as may be agreed between the Committee and the Optionee, if the Optionee shall no longer be employed on a full-time basis by either the Corporation or any of its subsidiaries, or ceases to serve as a director of the Corporation or any of its subsidiaries, for any reason whatsoever (including by reason of death, permanent disability or adjudicated incompetency) ("Terminated" or a "Termination"), irrespective of whether the Optionee receives, in connection with the Termination, any severance or other payment from the Corporation or any of its subsidiaries under any employment agreement or otherwise (such Optionee being referred to herein as a "Terminated Optionee"), the portion of the Option that was not exercisable immediately prior to the Optionee's Termination shall terminate and shall be of no further force and effect from and after the date of such Termination. Following a Termination, the Optionee may exercise the portion of the Option which was exercisable immediately prior to the date of the Optionee's Termination (the "Exercisable Portion of the Option") or any portion thereof on one occasion during the 90-day period following the date of Termination, but in no event after the expiration of the term of the Option. To the extent the Terminated Optionee does not so exercise the Exercisable Portion of the Option, the Exercisable Portion of the Option shall terminate and shall be of no force and effect.

7. Prohibited Activities.

7.1 Prohibition Against Certain Activities. The Optionee agrees that (a) he will not at any time during his employment (other than in the course of his employment) with the Corporation or any Affiliate thereof, or after any Termination, directly or indirectly disclose or furnish to any other person or use for his own or any other person's account any confidential or proprietary knowledge or any other information which is not a matter of public knowledge obtained during the course of his employment with, or other performance of services for (including service as a director of), the Corporation or any Affiliate thereof or any predecessor of any of the foregoing, no matter from where or in what manner the Optionee may have acquired such knowledge or information, and he shall retain all such knowledge and information in trust for the benefit of the Corporation, its Affiliates and the successors and assigns of any of them, (b) if he is Terminated, he will not for three years following the Termination directly or indirectly solicit for employment, including, without limitation, recommending to any subsequent employer the solicitation for employment of, any person who at the time of the solicitation is employed by the Corporation or any Affiliate thereof, (c) he will not at any time during his employment with, or performance of services for (including service as a director of), the Corporation or any Affiliate thereof or any predecessor of any of the foregoing, or after any Termination, publish any statement or make any statement (under circumstances reasonably likely to become public or that he might reasonably expect to become public) critical of the Corporation or any Affiliate of the Corporation, or in any way adversely affecting or

otherwise maligning the business or reputation of any of the foregoing, and (d) he will not breach the provisions of Section 6.1 hereof (any activity described in clause (a), (b), (c) or (d) of this Section 7.1 being herein referred to as a "Prohibited Activity").

7.2 Right to Terminate Option. The Optionee understands that the Corporation is granting to the Optionee an option to purchase shares of Common Stock hereunder to reward the Optionee for the Optionee's future efforts and loyalty to the Corporation and its Affiliates by giving the Optionee the opportunity to participate in the potential future appreciation of the Corporation. Accordingly, (a) if the Optionee engages in any Prohibited Activity, or (b) if, at any time during the Optionee's employment with the Corporation or any Affiliate or during the three years following the Optionee's Termination, the Optionee engages in any Competitive Activity (as hereinafter defined), or (c) if, at any time (whether during the Optionee's employment or after any Termination), the Optionee is convicted of a crime against the Corporation or any of its Affiliates, then, in addition to any other rights and remedies available to the Corporation, the Corporation shall be entitled, at its option, to terminate the Option, which shall then be of no further force and effect. The term "Competitive Activity" shall mean engaging in any of the following activities: (i) serving as a director of any person (other than the Corporation or any of its subsidiaries) that competes either directly or indirectly through one or more Affiliates with any of the businesses conducted by the Corporation or any of its Affiliates (a "Competitor"), (ii) directly or indirectly through one or more intermediaries (X) controlling any Competitor or (Y) owning any equity or debt interests in any Competitor (other than equity or debt interests which are publicly traded and do not exceed 2% of the particular class of interests outstanding) (it being understood that, if interests in any Competitor are owned by an investment vehicle or other entity in which the Optionee owns an equity interest, a portion of the interests in such Competitor owned by such entity shall be attributed to the Optionee, such portion determined by applying the percentage of the equity interest in such entity owned by the Optionee to the interests in such Competitor owned by such entity), (iii) directly or indirectly soliciting, diverting, taking away, appropriating or otherwise interfering with any of the customers or suppliers of the Corporation or any Affiliate of the Corporation of which the Optionee owns shares of capital stock or any other equity interest or (iv) employment by (including serving as an officer or director of) or providing consulting services to any Competitor. For purposes of this Section 7.2, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any Competitor, whether through the ownership of equity interests, by contract or otherwise.

8. Adjustments. In the event that the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation, whether through merger, consolidation, reorganization, recapitalization, stock dividend, stock split-up or other substitution of securities of the Corporation, the

Committee shall make appropriate adjustments to the number and class of shares of stock subject to this Option and the Option Price for such shares. The Committee's adjustment shall be final and binding for all purposes of the Plan and this Agreement. No adjustment provided for in this Section 8 shall require the Corporation to issue a fractional share, and the total adjustment with respect to this Agreement shall be limited accordingly.

9. Terminating Events.

(a) Upon the effective date of any Terminating Event, any unexercised portion of this Option shall terminate unless provision shall be made in writing in connection with such Terminating Event for the continuance of the Plan and such unexercised portion of the Option and for the assumption of such unexercised portion of this Option by a Successor Corporation or for the substitution for such unexercised portion of this Option of new options covering shares of such Successor Corporation with appropriate adjustments as to number and kind of shares and prices of shares subject to such new options; provided, however, that in connection with a Terminating Event involving the merger, consolidation or liquidation of the Corporation, the Committee may, in its sole discretion, authorize the redemption of the unexercised portion of the Option for a consideration per share of Common Stock issuable upon exercise of the unexercised portion of the Option equal to the excess of (i) the consideration payable per share of Common Stock in connection with such Terminating Event, adjusted as if all outstanding options and warrants had been exercised prior to the consummation of such Terminating Event, over (ii) the Option Price. In the event that provision for continuance of the Plan is made in writing in connection with a Terminating Event, the unexercised portion of this Option or the new options substituted therefor shall continue in the manner and under the terms provided in the Plan and this Agreement and in such writing.

(b) In the event of a redemption pursuant to this Section 9, the Optionee shall be responsible for and shall be obligated to pay a proportionate amount (determined as if the Optionee were a holder of the number of shares of Common Stock which would have been issuable upon exercise of the portion of the Option redeemed pursuant to this Section 9) of the expenses, liabilities or obligations incurred or to be incurred by the stockholders of the Corporation in connection with such Terminating Event (including, without limitation, the fees and expenses of investment bankers, legal counsel and other outside advisors and experts retained by or on behalf of the stockholders of the Corporation in connection with the Terminating Event, amounts payable in respect of indemnification claims, amounts paid into escrow and amounts payable in respect of post-closing adjustments to the purchase price).

10. No Right to Continued Employment. This Option shall not confer upon the Optionee any right with respect to continuance of employment by the Corporation or any Affiliate, nor shall it interfere in any way with the right of the Corporation or any Affiliate to terminate the

Optionee's employment at any time.

11. Withholding. The Corporation shall have the right to deduct from any amounts payable under this Agreement any taxes or other amounts required by applicable law to be withheld.

12. Optionee Bound by Plan; Entire Agreement. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. This Agreement and the Plan constitute the entire agreement, and supersede all prior agreements and understandings, oral and written, between the parties hereto with respect to the subject matter hereof.

13. Execution of Agreement; Modification of Agreement. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and which together shall constitute one and the same instrument. This Agreement may be modified, amended, suspended or terminated by the parties hereto; provided, that the Corporation may modify, amend, suspend or terminate this Agreement without any further action by the Optionee if such modification, amendment, suspension or termination does not adversely affect the Optionee's rights hereunder. Any terms, covenants, representations or conditions may be waived by the parties hereto, but only in a writing signed by the party which is entitled to the benefits of such waived term, covenant, representation or condition.

14. Severability. Should any provision of this Agreement be held by a court to be unenforceable or invalid for any reason, the remaining provisions of this Agreement shall not be affected by such holding and shall continue in full force in accordance with their terms.

15. Acknowledgment. By signing this Agreement, the Optionee acknowledges that he has reviewed the Plan and this Agreement and understands his rights and obligations thereunder and hereunder. The Optionee also acknowledges that he has been provided with such information concerning the Corporation, the Plan and this Agreement as he and his advisors have requested.

16. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon each successor of the Corporation. All obligations imposed upon the Optionee and all rights granted to the Corporation under this Agreement shall be binding upon the Optionee's heirs, executors, administrators and successors.

17. Headings. The headings and captions contained herein are for convenience only and shall not control or affect the meaning or construction of any provision hereof.

18. Resolution of Disputes. Any dispute or disagreement which may arise under, or as a result of, or which may in any way relate to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be

final and binding for all purposes.

19. Governing Law. This Agreement and the rights and obligations of the parties hereto shall be governed by, and construed in accordance with, the laws of the State of New York without giving effect to the principles of conflicts of laws thereof.

GULFSTREAM AEROSPACE CORPORATION

By:

Title:

Optionee

The undersigned acknowledges that the undersigned has read the foregoing Agreement between Gulfstream Aerospace Corporation and the undersigned's spouse and the Stock Option Plan, understands that the undersigned's spouse has been granted an option to acquire shares of Gulfstream Aerospace Corporation Common Stock, which option is subject to certain restrictions reflected in such Agreement and such Plan and agrees to be bound by the foregoing Agreement and such Plan.

Optionee's Spouse

Exhibit A
Definition of "Change in Control"

For purposes of this Agreement, a "Change in Control" shall mean the occurrence of any of the following:

(a) An acquisition (other than directly from the Corporation) of any voting securities of the Corporation (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")), immediately after which such Person has "Beneficial Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the then outstanding Common Stock or the combined voting power of the Corporation's then outstanding Voting Securities; provided, however, in determining whether a Change in Control has occurred, Common Stock or Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an

acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Corporation or (B) any corporation or other Person of which a majority of its voting power or its voting equity securities or equity interest is owned, directly or indirectly, by the Corporation (for purposes of this definition, a "Subsidiary"), (ii) the Corporation or its Subsidiaries, (iii) the FL & Co. Companies, the direct or indirect partners of any of the FL & Co. Companies, and any Affiliates of any of the foregoing, or (iv) any Person in connection with a "Non-Control Transaction" (as hereinafter defined);

(b) The individuals who, as of the date the Option is granted, are members of the Board of Directors of the Corporation (the "Incumbent Board"), cease for any reason to constitute at least two-thirds of the members of the Board of Directors of the Corporation; provided, however, that if the election, or nomination for election by the Corporation's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of the Corporation (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(c) The consummation of a merger, consolidation or reorganization with or into the Corporation or in which securities of the Corporation are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction." A "Non-Control Transaction" shall mean a merger, consolidation or reorganization with or into the Corporation or in which securities of the Corporation are issued where the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation, or a corporation beneficially directly or indirectly owning a majority of the voting securities of the Surviving Corporation.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the then outstanding Common Stock or Voting Securities as a result of the acquisition of Common Stock or Voting Securities by the Corporation which, by reducing the number of Common Stock or Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Common Stock or Voting Securities by the Corporation, and after such share acquisition by the

Corporation, the Subject Person becomes the Beneficial Owner of any additional Common Stock or Voting Securities which increases the percentage of the then outstanding Common Stock or Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

STOCK OPTION AGREEMENT (the "Agreement"), dated as of _____, 199__, between Gulfstream Aerospace Corporation, a Delaware corporation (together with its successors the "Corporation"), and _____ (the "Optionee").

1. Grant of Option.

1.1 The Corporation hereby grants to the Optionee the right and option (the "Option") to purchase all or any part of an aggregate of _____ whole shares of Common Stock, par value \$.01 per share, of the Corporation (the "Common Stock") (such number being subject to adjustment as provided in Section 8 hereof) on the terms and conditions set forth in this Agreement and in the Corporation's Stock Option Plan (the "Plan"), a copy of which has previously been provided to the Optionee.

1.2 This Option is not intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code.

1.3 Except as otherwise defined herein, capitalized terms used in this Agreement shall have the same definitions as set forth in the Plan.

2. Purchase Price. The price at which the Optionee shall be entitled to purchase shares of Common Stock upon the exercise of this Option shall be \$_____ per share (such price being subject to adjustment as provided in Section 8 hereof) (the "Option Price").

3. Duration of Option. The Option shall be exercisable to the extent and in the manner provided herein for a period of 10 years from the date hereof; provided, however, that the Option may be earlier terminated as provided in Section 4, Section 6, Section 7 or Section 9 hereof.

4. Exercisability of Options.

(a) Subject to the provisions of this Agreement and the Plan, the Option shall be exercisable in accordance with the following schedule:

(i) on or after _____, ____ but before _____, _____, the Option may be exercised to acquire up to one-third of the total number of shares of Common Stock which may be purchased pursuant to the Option as set forth in Section 1.1 hereof, less any shares previously acquired

pursuant to the Option;

(ii) on or after _____, _____ but before _____, _____, the Option may be exercised to acquire up to two-thirds of the total number of shares of Common Stock which may be purchased pursuant to the Option as set forth in Section 1.1, less any shares previously acquired pursuant to the Option; and

(iii) on or after _____, _____ but before the expiration of the term of the Option, the Option may be exercised to acquire up to 100% of the total number of shares of Common Stock which may be purchased pursuant to the Option as set forth in Section 1.1, less any shares previously acquired pursuant to the Option.

(b) Except in the case of a Terminating Event (as hereinafter defined) occurring within six months following the date hereof, the Corporation shall give the Optionee 10 days' written notice (or, if not practicable, such shorter notice as may be practicable) prior to the anticipated date of the consummation of a Terminating Event (as hereinafter defined), and the Optionee shall be permitted to exercise the Option for a period of 5 days (or such shorter period as the Committee shall determine and so notify the Optionee) after the date of such notice of the Terminating Event. In the case of a Terminating Event other than a Terminating Event occurring within six months following the date hereof, the Option may be exercised, in whole or in part, for the full amount of the shares of Common Stock covered thereby (less the number of shares previously issued to the Optionee upon exercise of the Option), whether or not the Option was otherwise so exercisable on the date such notice was given. In the event the Terminating Event is not consummated, the Option will be deemed not to have been exercised and shall be exercisable thereafter only to the extent it would have been exercisable if no such notice had been given. In lieu of permitting the Optionee to exercise the Option in the event of a Terminating Event, the Committee, in its sole discretion, may instead cause the Corporation to redeem the unexercised portion of the Option pursuant to Section 9 hereof.

For purposes hereof, the term "Terminating Event" shall mean the consummation of any of the following transactions: (i) any merger or consolidation of the Corporation with or into another corporation (other than a merger or consolidation in which the Corporation is the surviving corporation and which does not result in any capital reorganization or reclassification or other change of the then outstanding shares of Common Stock), or (ii) the liquidation or dissolution of the Corporation, or (iii) the sale or other disposition to any person (other than a subsidiary or an Affiliate of the Corporation) of all or substantially all of the assets of the Corporation pursuant to a plan of liquidation or otherwise.

Subject to the provisions of Section 9 hereof, the Option shall be canceled simultaneously with the consummation of a Terminating Event to

the extent that the Option has not theretofore been exercised.

(c) Notwithstanding the foregoing Section 4(a) of this Agreement, in the event of a Change in Control (as defined in Exhibit A attached hereto) that occurs more than six months following the date hereof, the Option shall become immediately and fully exercisable.

5. Manner of Exercise and Payment.

5.1 Notice of Exercise. Subject to the terms and conditions of this Agreement and the Plan, the Option may be exercised by delivery of written notice to the Committee, at the Corporation's principal office (or such other address as the Corporation may from time to time notify the Optionee in writing). Such notice shall state that the Optionee is electing to exercise the Option and the number of shares of Common Stock in respect of which the Option is being exercised and shall be signed by the Optionee or by any guardian, executor, administrator or other legal representative (each, a "Legal Representative"). The Corporation may require proof satisfactory to it as to the right of such person to exercise the Option.

5.2 Deliveries. The notice of exercise described in Section 5.1 hereof shall be accompanied by (a) the full purchase price for the shares in respect of which the Option is being exercised, such purchase price to be paid by certified or bank check payable to the order of the Corporation or cash by wire transfer to an account designated by the Corporation. Not less than 250 shares of Common Stock may be purchased at any one time upon the exercise of an Option, unless the number of shares of Common Stock so purchased constitutes the total number of shares of Common Stock then purchasable under the Option.

5.3 Issuance of Shares. Upon receipt of notice of exercise, full payment for the shares of Common Stock in respect of which the Option is being exercised, and subject to Section 10 of the Plan, the Corporation shall take such action as may be necessary under applicable law to effect the issuance to the Optionee of the number of shares of Common Stock as to which such exercise was effective.

5.4 Stockholder Rights. The Optionee shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to the Option until: (a) the Option shall have been exercised pursuant to the terms of this Agreement and the Optionee shall have paid the full purchase price for the number of shares in respect of which the Option was exercised and any withholding taxes due in connection with such exercise, (b) the Corporation shall have issued the shares to the Optionee, and (c) the Optionee's name shall have been entered as a stockholder of record on the books of the Corporation. Upon the occurrence of all of the foregoing events, the Optionee shall have full voting and other ownership rights with respect to such shares.

6. Certain Restrictions.

6.1 No Sale or Transfer. The Optionee shall not sell, transfer, assign, exchange, pledge, encumber or otherwise dispose of the Option, in whole or in part, except in accordance with the provisions of this Agreement.

6.2 Employment Termination. Except (i) as provided in this Section 6.2 or (ii) as may be agreed between the Committee and the Optionee, if the Optionee shall no longer be employed on a full-time basis by either the Corporation or any of its subsidiaries, or ceases to serve as a director of the Corporation or any of its subsidiaries, for any reason whatsoever (including by reason of death, permanent disability or adjudicated incompetency) ("Terminated" or a "Termination"), irrespective of whether the Optionee receives, in connection with the Termination, any severance or other payment from the Corporation or any of its subsidiaries under any employment agreement or otherwise (such Optionee being referred to herein as a "Terminated Optionee"), the portion of the Option that was not exercisable immediately prior to the Optionee's Termination shall terminate and shall be of no further force and effect from and after the date of such Termination. Following a Termination, the Optionee may exercise the portion of the Option which was exercisable immediately prior to the date of the Optionee's Termination (the "Exercisable Portion of the Option") or any portion thereof on one occasion during the 90-day period following the date of Termination, but in no event after the expiration of the term of the Option. To the extent the Terminated Optionee does not so exercise the Exercisable Portion of the Option, the Exercisable Portion of the Option shall terminate and shall be of no force and effect.

7. Prohibited Activities.

7.1 Prohibition Against Certain Activities. The Optionee agrees that (a) he will not at any time during his employment (other than in the course of his employment) with the Corporation or any Affiliate thereof, or after any Termination, directly or indirectly disclose or furnish to any other person or use for his own or any other person's account any confidential or proprietary knowledge or any other information which is not a matter of public knowledge obtained during the course of his employment with, or other performance of services for (including service as a director of), the Corporation or any Affiliate thereof or any predecessor of any of the foregoing, no matter from where or in what manner the Optionee may have acquired such knowledge or information, and he shall retain all such knowledge and information in trust for the benefit of the Corporation, its Affiliates and the successors and assigns of any of them, (b) if he is Terminated, he will not for three years following the Termination directly or indirectly solicit for employment, including, without limitation, recommending to any subsequent employer the solicitation for employment of, any person who at the time of the solicitation is employed by the Corporation or any Affiliate thereof, (c) he will not at any time during his employment with, or performance of

services for (including service as a director of), the Corporation or any Affiliate thereof or any predecessor of any of the foregoing, or after any Termination, publish any statement or make any statement (under circumstances reasonably likely to become public or that he might reasonably expect to become public) critical of the Corporation or any Affiliate of the Corporation, or in any way adversely affecting or otherwise maligning the business or reputation of any of the foregoing, and (d) he will not breach the provisions of Section 6.1 hereof (any activity described in clause (a), (b), (c) or (d) of this Section 7.1 being herein referred to as a "Prohibited Activity").

7.2 Right to Terminate Option. The Optionee understands that the Corporation is granting to the Optionee an option to purchase shares of Common Stock hereunder to reward the Optionee for the Optionee's future efforts and loyalty to the Corporation and its Affiliates by giving the Optionee the opportunity to participate in the potential future appreciation of the Corporation. Accordingly, (a) if the Optionee engages in any Prohibited Activity, or (b) if, at any time during the Optionee's employment with the Corporation or any Affiliate or during the three years following the Optionee's Termination, the Optionee engages in any Competitive Activity (as hereinafter defined), or (c) if, at any time (whether during the Optionee's employment or after any Termination), the Optionee is convicted of a crime against the Corporation or any of its Affiliates, then, in addition to any other rights and remedies available to the Corporation, the Corporation shall be entitled, at its option, to terminate the Option, which shall then be of no further force and effect. The term "Competitive Activity" shall mean engaging in any of the following activities: (i) serving as a director of any person (other than the Corporation or any of its subsidiaries) that competes either directly or indirectly through one or more Affiliates with any of the businesses conducted by the Corporation or any of its Affiliates (a "Competitor"), (ii) directly or indirectly through one or more intermediaries (X) controlling any Competitor or (Y) owning any equity or debt interests in any Competitor (other than equity or debt interests which are publicly traded and do not exceed 2% of the particular class of interests outstanding) (it being understood that, if interests in any Competitor are owned by an investment vehicle or other entity in which the Optionee owns an equity interest, a portion of the interests in such Competitor owned by such entity shall be attributed to the Optionee, such portion determined by applying the percentage of the equity interest in such entity owned by the Optionee to the interests in such Competitor owned by such entity), (iii) directly or indirectly soliciting, diverting, taking away, appropriating or otherwise interfering with any of the customers or suppliers of the Corporation or any Affiliate of the Corporation of which the Optionee owns shares of capital stock or any other equity interest or (iv) employment by (including serving as an officer or director of) or providing consulting services to any Competitor. For purposes of this Section 7.2, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of any Competitor, whether through the ownership of equity interests, by contract or otherwise.

8. Adjustments. In the event that the outstanding shares of Common Stock are changed into or exchanged for a different number or kind of shares of stock or other securities of the Corporation, whether through merger, consolidation, reorganization, recapitalization, stock dividend, stock split-up or other substitution of securities of the Corporation, the Committee shall make appropriate adjustments to the number and class of shares of stock subject to this Option and the Option Price for such shares. The Committee's adjustment shall be final and binding for all purposes of the Plan and this Agreement. No adjustment provided for in this Section 8 shall require the Corporation to issue a fractional share, and the total adjustment with respect to this Agreement shall be limited accordingly.

9. Terminating Events.

(a) Upon the effective date of any Terminating Event, any unexercised portion of this Option shall terminate unless provision shall be made in writing in connection with such Terminating Event for the continuance of the Plan and such unexercised portion of the Option and for the assumption of such unexercised portion of this Option by a Successor Corporation or for the substitution for such unexercised portion of this Option of new options covering shares of such Successor Corporation with appropriate adjustments as to number and kind of shares and prices of shares subject to such new options; provided, however, that in connection with a Terminating Event involving the merger, consolidation or liquidation of the Corporation, the Committee may, in its sole discretion, authorize the redemption of the unexercised portion of the Option for a consideration per share of Common Stock issuable upon exercise of the unexercised portion of the Option equal to the excess of (i) the consideration payable per share of Common Stock in connection with such Terminating Event, adjusted as if all outstanding options and warrants had been exercised prior to the consummation of such Terminating Event, over (ii) the Option Price. In the event that provision for continuance of the Plan is made in writing in connection with a Terminating Event, the unexercised portion of this Option or the new options substituted therefor shall continue in the manner and under the terms provided in the Plan and this Agreement and in such writing.

(b) In the event of a redemption pursuant to this Section 9, the Optionee shall be responsible for and shall be obligated to pay a proportionate amount (determined as if the Optionee were a holder of the number of shares of Common Stock which would have been issuable upon exercise of the portion of the Option redeemed pursuant to this Section 9) of the expenses, liabilities or obligations incurred or to be incurred by the stockholders of the Corporation in connection with such Terminating Event (including, without limitation, the fees and expenses of investment bankers, legal counsel and other outside advisors and experts retained by or on behalf of the stockholders of the Corporation in connection with the Terminating Event, amounts payable in respect of indemnification claims,

amounts paid into escrow and amounts payable in respect of post-closing adjustments to the purchase price).

10. No Right to Continued Employment. This Option shall not confer upon the Optionee any right with respect to continuance of employment by the Corporation or any Affiliate, nor shall it interfere in any way with the right of the Corporation or any Affiliate to terminate the Optionee's employment at any time.

11. Withholding. The Corporation shall have the right to deduct from any amounts payable under this Agreement any taxes or other amounts required by applicable law to be withheld.

12. Optionee Bound by Plan; Entire Agreement. The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof. This Agreement and the Plan constitute the entire agreement, and supersede all prior agreements and understandings, oral and written, between the parties hereto with respect to the subject matter hereof.

13. Execution of Agreement; Modification of Agreement. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and which together shall constitute one and the same instrument. This Agreement may be modified, amended, suspended or terminated by the parties hereto; provided, that the Corporation may modify, amend, suspend or terminate this Agreement without any further action by the Optionee if such modification, amendment, suspension or termination does not adversely affect the Optionee's rights hereunder. Any terms, covenants, representations or conditions may be waived by the parties hereto, but only in a writing signed by the party which is entitled to the benefits of such waived term, covenant, representation or condition.

14. Severability. Should any provision of this Agreement be held by a court to be unenforceable or invalid for any reason, the remaining provisions of this Agreement shall not be affected by such holding and shall continue in full force in accordance with their terms.

15. Acknowledgment. By signing this Agreement, the Optionee acknowledges that he has reviewed the Plan and this Agreement and understands his rights and obligations thereunder and hereunder. The Optionee also acknowledges that he has been provided with such information concerning the Corporation, the Plan and this Agreement as he and his advisors have requested.

16. Successors in Interest. This Agreement shall inure to the benefit of and be binding upon each successor of the Corporation. All obligations imposed upon the Optionee and all rights granted to the Corporation under this Agreement shall be binding upon the Optionee's heirs, executors, administrators and successors.

17. Headings. The headings and captions contained herein are for

convenience only and shall not control or affect the meaning or construction of any provision hereof.

18. Resolution of Disputes. Any dispute or disagreement which may arise under, or as a result of, or which may in any way relate to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final and binding for all purposes.

19. Governing Law. This Agreement and the rights and obligations of the parties hereto shall be governed by, and construed in accordance with, the laws of the State of New York without giving effect to the principles of conflicts of laws thereof.

GULFSTREAM AEROSPACE CORPORATION

By:

Title:

Optionee

The undersigned acknowledges that the undersigned has read the foregoing Agreement between Gulfstream Aerospace Corporation and the undersigned's spouse and the Stock Option Plan, understands that the undersigned's spouse has been granted an option to acquire shares of Gulfstream Aerospace Corporation Common Stock, which option is subject to certain restrictions reflected in such Agreement and such Plan and agrees to be bound by the foregoing Agreement and such Plan.

Optionee's Spouse

Exhibit A
Definition of "Change in Control"

For purposes of this Agreement, a "Change in Control" shall mean the occurrence of any of the following:

(a) An acquisition (other than directly from the Corporation) of any voting securities of the Corporation (the "Voting Securities") by any "Person" (as the term person is used for purposes of Section 13(d) or 14(d) of the Securities Exchange Act of 1934 (the "Exchange Act")), immediately after which such Person has "Beneficial

Ownership" (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of fifty percent (50%) or more of the then outstanding Common Stock or the combined voting power of the Corporation's then outstanding Voting Securities; provided, however, in determining whether a Change in Control has occurred, Common Stock or Voting Securities which are acquired in a "Non-Control Acquisition" (as hereinafter defined) shall not constitute an acquisition which would cause a Change in Control. A "Non-Control Acquisition" shall mean an acquisition by (i) an employee benefit plan (or a trust forming a part thereof) maintained by (A) the Corporation or (B) any corporation or other Person of which a majority of its voting power or its voting equity securities or equity interest is owned, directly or indirectly, by the Corporation (for purposes of this definition, a "Subsidiary"), (ii) the Corporation or its Subsidiaries, (iii) the FL & Co. Companies, the direct or indirect partners of any of the FL & Co. Companies, and any Affiliates of any of the foregoing, or (iv) any Person in connection with a "Non-Control Transaction" (as hereinafter defined);

(b) The individuals who, as of the date the Option is granted, are members of the Board of Directors of the Corporation (the "Incumbent Board"), cease for any reason to constitute at least two-thirds of the members of the Board of Directors of the Corporation; provided, however, that if the election, or nomination for election by the Corporation's common stockholders, of any new director was approved by a vote of at least two-thirds of the Incumbent Board, such new director shall, for purposes of this Plan, be considered as a member of the Incumbent Board; provided further, however, that no individual shall be considered a member of the Incumbent Board if such individual initially assumed office as a result of either an actual or threatened "Election Contest" (as described in Rule 14a-11 promulgated under the Exchange Act) or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors of the Corporation (a "Proxy Contest") including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest; or

(c) The consummation of a merger, consolidation or reorganization with or into the Corporation or in which securities of the Corporation are issued, unless such merger, consolidation or reorganization is a "Non-Control Transaction." A "Non-Control Transaction" shall mean a merger, consolidation or reorganization with or into the Corporation or in which securities of the Corporation are issued where the individuals who were members of the Incumbent Board immediately prior to the execution of the agreement providing for such merger, consolidation or reorganization constitute at least a majority of the members of the board of directors of the Surviving Corporation, or a corporation beneficially directly or indirectly owning a majority of the voting securities of the Surviving Corporation.

Notwithstanding the foregoing, a Change in Control shall not be deemed to occur solely because any Person (the "Subject Person") acquired Beneficial Ownership of more than the permitted amount of the then outstanding Common Stock or Voting Securities as a result of the acquisition of Common Stock

or Voting Securities by the Corporation which, by reducing the number of Common Stock or Voting Securities then outstanding, increases the proportional number of shares Beneficially Owned by the Subject Persons, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of Common Stock or Voting Securities by the Corporation, and after such share acquisition by the Corporation, the Subject Person becomes the Beneficial Owner of any additional Common Stock or Voting Securities which increases the percentage of the then outstanding Common Stock or Voting Securities Beneficially Owned by the Subject Person, then a Change in Control shall occur.

FIFTH AMENDMENT

FIFTH AMENDMENT, dated as of March 1, 1999 (this "Amendment"), to the Credit Agreement, dated as of October 16, 1996, as heretofore amended (the "Credit Agreement"), among GULFSTREAM DELAWARE CORPORATION, a Delaware corporation, the several lenders from time to time parties thereto (the "Lenders"), THE CHASE MANHATTAN BANK, a New York banking corporation, as administrative agent for the Lenders (in such capacity, the "Administrative Agent").

W I T N E S S E T H :
- - - - -

WHEREAS, the Company, the Lenders and the Administrative Agent are parties to the Credit Agreement;

WHEREAS, the Company has requested that the Administrative Agent and the Required Lenders amend certain provisions of the Credit Agreement; and

WHEREAS, the Administrative Agent and the Required Lenders are agreeable to the requested amendments, but only on the terms and subject to the conditions set forth herein;

NOW THEREFORE, in consideration of the premises herein contained and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties hereto hereby agree as follows:

1 Defined Terms. Unless otherwise defined herein, capitalized terms used herein which are defined in the Credit Agreement are used herein as therein defined.

2 Amendments to Subsection 8.11. Subsections 8.11(f) and (g) of the Credit Agreement are hereby amended by deleting the existing subsections 8.11(f) and (g) in their entirety and by substituting in lieu thereof the following:

(f) so long as no Default or Event of Default has occurred or would occur after giving effect to such declaration or payment, the Company may, at any time that (i) the Leverage Ratio in effect is equal to or less than 1.5:1.0 or (ii) the aggregate principal amount of Term Loans then outstanding is less than \$200,000,000, declare and pay cash dividends to Holdings on the common stock of the Company, provided that the aggregate amount

thereof paid in any fiscal year of the Company pursuant to this paragraph (f) does not exceed an amount equal to 25% of Consolidated Net Income for such fiscal year less any Stock Repurchase Dividends (as defined below) made under paragraph (g) of this subsection 8.11 during such fiscal year (provided that the resulting amount shall not be less than zero); and

(g) so long as no Default or Event of Default has occurred or would occur after giving effect to such declaration or payment, the Company may (in addition to dividends paid by the Company to Holdings on the common stock of the Company to enable Holdings to repurchase shares of its common stock pursuant to share repurchase programs prior to March 1, 1999), at any time and from time to time after March 1, 1999, declare and pay cash dividends to Holdings on the common stock of the Company, in an aggregate amount of up to \$200,000,000, in order to enable Holdings to repurchase shares of its own common stock for an aggregate purchase price of \$200,000,000 pursuant to a share repurchase program (such cash dividends, the "Stock Repurchase Dividends"), provided that the Company does not use more than \$100,000,000 in proceeds from Revolving Credit Loans to finance such Stock Repurchase Dividends (it being understood that this proviso shall in no way limit the Company from using proceeds from Revolving Credit Loans for any other purpose).

3. Effectiveness. This Amendment shall become effective as of the date (the "Effective Date") the Administrative Agent shall have received counterparts hereof duly executed by the Company, the Administrative Agent and the Required Lenders.

4. Representations and Warranties. The Company hereby represents and warrants that each of the representations and warranties in or pursuant to Section 5 of the Credit Agreement or which are contained in any other Credit Document or in any certificate, document or financial or other statement furnished by or on behalf of Holdings, the Company or any Subsidiary thereof shall be, after giving effect to this Amendment, true and correct in all material respects as if made on and as of the date hereof (unless such representations and warranties are stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date).

5. Continuing Effect of Credit Agreement. This Amendment shall not be construed as a waiver or consent to any further or future action on the part of the Company that would require a waiver or consent of the Administrative Agent and/or the Lenders. Except as amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

6. Counterparts. This Amendment may be executed in counterparts and all of the said counterparts taken together shall be deemed to

constitute one and the same instrument.

7. GOVERNING LAW. THIS AMENDMENT SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

8. Expenses. The Company agrees to pay or reimburse the Administrative Agent for all of its out-of-pocket costs and expenses incurred in connection with the preparation, negotiation and execution of this Amendment, including, without limitation, the fees and disbursements of counsel to the Administrative Agent.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed and delivered by their duly authorized officers as of the date first written above.

GULFSTREAM DELAWARE CORPORATION

By: /s/ Robert L. Williams

Title: Vice President and Treasurer

THE CHASE MANHATTAN BANK, as
Administrative Agent and as a Lender

By: /s/ William J. Caggiano

Title: Managing Director

ARAB BANKING CORP.

By: /s/ Louise Bilbro

Title: Vice President

BANK OF AMERICA

By: illegible

Title: Senior Vice President

BANK OF NEW YORK

By: /s/ David C. Siegel

Title: Vice President

BANK OF TOKYO-MITSUBISHI TRUST

By: /s/ Brian S. Dossie

Title: Assistant Vice President

CAPTIVA FINANCE LTD.

By: /s/ John H. Gullimane

Title: Director

CERES FINANCE LTD.

By: /s/ John H. Gullimane

Title: Director

MEDICAL LIABILITY MUTUAL INSURANCE

By: Chancellor LGT Senior Secured
Management, Inc.,
as Investment Manager

By:

Title:

BANK AUSTRIA CREDITANSTALT
CORPORATE FINANCE, INC.

By:

Title:

By:

Title:

CITIBANK, N.A.

By: illegible

Title: Managing Director

CREDIT LYONNAIS

By: illegible

Title: Senior Vice President

SUN TRUST BANK, ATLANTA

By:/s/ Jenna H. Kelly

Title: Vice President

By:/s/ Susan [illegible]

Title: Banking Officer

BANKBOSTON, N.A.

By:/s/ Cheryl J. Carangelo

Title: Vice President

THE FIRST NATIONAL BANK OF CHICAGO

By:/s/ Aaron Lamb

Title: Corporate Banking Officer

INDUSTRIAL BANK OF JAPAN, LTD.

By: /s/ Takuya Monjo

Title: Senior Vice President

KREDIETBANK

By:

Title:

LTCB TRUST COMPANY

By:

Title:

LEHMAN COMMERCIAL PAPER INC.

By: /s/ Michele Swanson

Title: Authorized Signatory

MARINE MIDLAND BANK, N.A.

By: /s/ Christopher F. French

Title: Authorized Signatory

MERRILL LYNCH PRIME RATE PORTFOLIO
By: Merrill Lynch Asset Management,
L.P., as Investment Advisor

By:

Title:

MERRILL LYNCH SENIOR FLOATING RATE
FUND, INC.

By:

Title:

MITSUBISHI TRUST & BANKING
CORPORATION

By:

Title:

NATIONSBANK N.A.

By: illegible

Title: Senior Vice President

PNC BANK, N.A.

By:

Title:

SOCIETE GENERALE

By: /s/ Ralph Saheb

Title: Director

U.S. BANK NATIONAL ASSOCIATION

By:

Title:

VAN KAMPEN AMERICAN CAPITAL PRIME
RATE INCOME TRUST

By: /s/ Jeffrey W. Maillet

Title: Senior Vice President
and Director

KZH III LLC

By: /s/ Virginia Conway

Title: Authorized Agent

The undersigned guarantors hereby
consent to the foregoing Amendment:

GULFSTREAM AEROSPACE CORPORATION,
a Delaware Corporation

By: /s/ Robert L. Williams

Title: Vice President and Treasurer

GULFSTREAM AEROSPACE CORPORATION,
a Georgia Corporation

GULFSTREAM AEROSPACE CORPORATION,
D/B/A GULFSTREAM AEROSPACE
TECHNOLOGIES,
an Oklahoma Corporation

GULFSTREAM AEROSPACE CORPORATION,
a California Corporation

By: /s/ Robert L. Williams

Title: Vice President and Treasurer

SECURED PROMISSORY NOTE (1210)

\$21,000,000

New York, New York
November 30, 1998

FOR VALUE RECEIVED, GULFSTREAM AEROSPACE CORPORATION, a Georgia corporation (the "Borrower"), hereby promises to pay to THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation ("CIT"), or order, the principal amount of Twenty-One Million United States Dollars (US\$21,000,000), in one hundred seven (107) consecutive equal monthly installments of principal, in arrears, commencing on the one year anniversary date of this Note, in the amount set forth on Schedule I hereto, and one (1) payment on the one hundred eighth (108th) Payment Date in the amount set forth on Schedule I hereto, together with interest on the amount of said principal sums remaining unpaid from time to time, payable in arrears commencing on the date of this Note, at an interest rate per annum equal to one and four tenths percent (1.4%) over one-month LIBOR (as defined below), but in no event greater than the rate of interest permitted pursuant to applicable Law (the "Interest Rate"). Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. The date on which any payment shall be due hereunder shall be referred to as a "Payment Date". Notwithstanding the foregoing, the final payment made on this Note shall be in an amount sufficient to discharge in full the principal, premium, if any, and all accrued and unpaid interest on, and any other amounts due under this Note. Capitalized terms used herein and not defined herein shall have the meaning set forth in the Security Agreement (1210) dated as of November 30, 1998 (the "Security Agreement") between CIT and the Borrower.

For purposes hereof, "LIBOR" shall mean the one-month London Interbank Offered Rate of major banks for deposits of U.S. dollars appearing on Telerate Page 3750 as of 11:00 a.m., London, England time, two (2) Business Days prior to the beginning of the applicable interest Period (rounded to the nearest 1/100 of 1 percent). If such rate does not appear on the Telerate Page 3750, the rate for that Interest Period will be the last such rate that appeared on Telerate Page 3750, provided that if such rate did not appear on Telerate Page 3750 for a period of more than five Business Days prior to that date of determination, then the LIBOR Rate shall be determined from such source as CIT shall determine. "Telerate Page" means the display page so designated on the Telerate Service of Telerate Inc. (or such other market data vendor as may be nominated by CIT for the purpose of displaying rates or prices for U.S. dollar deposits for a period of one month).

For purposes hereof, "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in New York, New York (and, with respect to calculation of LIBOR, London, England) are required or authorized by law to be closed. If any payment under this Note becomes due and payable on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, together with interest at the Interest Rate with respect to such extension, provided, that if the result of such extension would be to extend such payment into another calendar month, such payment shall be made on the last Business Day of such calendar month.

This Note shall be subject to mandatory prepayment as follows:

(i) in whole as a result of the occurrence of an Event of Loss with respect to the Aircraft as provided in Section 3.14 of the Security Agreement;

(ii) in whole upon the occurrence of an Event of Default as provided in the Security Agreement; or

Upon the occurrence of any of the events set forth in clauses (i) and (ii) above, the Borrower shall pay all unpaid principal on this Note plus accrued interest thereon to the date of such payment.

This Note may be voluntarily prepaid in whole by the Borrower on any Payment Date by (i) giving CIT prior written notice at least twenty (20) Business Days prior to such Payment Date, and (ii) paying to CIT on such Payment Date all outstanding and unpaid principal and accrued and unpaid interest calculated on an actuarial basis, without premium or penalty.

This Note shall bear interest, payable on demand, at the Interest Rate plus 2% (but in no event higher than the rate permitted by applicable Law) on overdue principal, overdue premium, if any, and (to the extent permitted by applicable Law) overdue interest and any other amounts payable hereunder which are overdue from the date when due until the date of payment.

Principal and interest and other amounts due hereunder shall be payable in immediately available funds at Bank of America, ABA Number: 121000358, for credit to: The CIT Group/Industrial Financing, Account Number 1233-5-18855, or at such other place as CIT shall have designated to the Borrower in writing. Each such payment shall be made on the date such payment is due and without any presentment or surrender of this Note, except that in the case of any final payment with respect to this Note, this Note shall be surrendered promptly thereafter by CIT to the Borrower. All such payments by the Borrower shall be free and clear of and without deduction for or on account of wire and other charges.

This Note is the Note referred to in the Security Agreement and

was issued by the Borrower pursuant to the terms of such agreement. Reference is hereby made to the Security Agreement for a description of the properties and assets in which a lien and security interest has been granted, a statement of the rights and obligations of the holder of, and the nature and extent of the security for this Note, to all of which terms and conditions in the Security Agreement the holder hereof agrees by its acceptance of this Note. Payment of this Note may be accelerated by CIT prior to the maturity of this Note under certain circumstances and conditions, in the manner and with the effect provided in the Security Agreement.

Except as provided above the Borrower may not voluntarily prepay this Note in whole or in part. Any prepayments of this Note shall be applied first to accrued interest and then to installments of principal in inverse order of maturity.

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed on the day and year set forth below.

GULFSTREAM AEROSPACE CORPORATION

By: /s/ Chris A. Davis

Name:

Title: Chief Financial Officer

Date: November 30, 1998

SCHEDULE I (1210)

AMORTIZATION SCHEDULE FOR THE PROMISSORY NOTE

SECURED PROMISSORY NOTE (1099)

\$18,000,000

New York, New York
November 30, 1998

FOR VALUE RECEIVED, GULFSTREAM AEROSPACE CORPORATION, a Georgia corporation (the "Borrower"), hereby promises to pay to THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation ("CIT"), or order, the principal amount of Eighteen Million United States Dollars (US\$18,000,000), in one hundred seven (107) consecutive equal monthly installments of principal, in arrears, commencing on the one year anniversary date of this Note, in the amount set forth on Schedule I hereto, and one (1) payment on the one hundred eighth (108th) Payment Date in the amount set forth on Schedule I hereto, together with interest on the amount of said principal sums remaining unpaid from time to time, payable in arrears commencing on the date of this Note, at an interest rate per annum equal to one and four tenths percent (1.4%) over one-month LIBOR (as defined below), but in no event greater than the rate of interest permitted pursuant to applicable Law (the "Interest Rate"). Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. The date on which any payment shall be due hereunder shall be referred to as a "Payment Date". Notwithstanding the foregoing, the final payment made on this Note shall be in an amount sufficient to discharge in full the principal, premium, if any, and all accrued and unpaid interest on, and any other amounts due under this Note. Capitalized terms used herein and not defined herein shall have the meaning set forth in the Security Agreement (1099) dated as of November 30, 1998 (the "Security Agreement") between CIT and the Borrower.

For purposes hereof, "LIBOR" shall mean the one-month London Interbank Offered Rate of major banks for deposits of U.S. dollars appearing on Telerate Page 3750 as of 11:00 a.m., London, England time, two (2) Business Days prior to the beginning of the applicable interest Period (rounded to the nearest 1/100 of 1 percent). If such rate does not appear on the Telerate Page 3750, the rate for that Interest Period will be the last such rate that appeared on Telerate Page 3750, provided that if such rate did not appear on Telerate Page 3750 for a period of more than five Business Days prior to that date of determination, then the LIBOR Rate shall be determined from such source as CIT shall determine. "Telerate Page" means the display page so designated on the Telerate Service of Telerate Inc. (or such other market data vendor as may be nominated by CIT for the purpose of displaying rates or prices for U.S. dollar deposits for a period of one month).

For purposes hereof, "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in New York, New York (and, with respect to calculation of LIBOR, London, England) are required or authorized by law to be closed. If any payment under this Note becomes due and payable on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, together with interest at the Interest Rate with respect to such extension, provided, that if the result of such extension would be to extend such payment into another calendar month, such payment shall be made on the last Business Day of such calendar month.

This Note shall be subject to mandatory prepayment as follows:

(i) in whole as a result of the occurrence of an Event of Loss with respect to the Aircraft as provided in Section 3.14 of the Security Agreement;

(ii) in whole upon the occurrence of an Event of Default as provided in the Security Agreement; or

Upon the occurrence of any of the events set forth in clauses (i) and (ii) above, the Borrower shall pay all unpaid principal on this Note plus accrued interest thereon to the date of such payment.

This Note may be voluntarily prepaid in whole by the Borrower on any Payment Date by (i) giving CIT prior written notice at least twenty (20) Business Days prior to such Payment Date, and (ii) paying to CIT on such Payment Date all outstanding and unpaid principal and accrued and unpaid interest calculated on an actuarial basis, without premium or penalty.

This Note shall bear interest, payable on demand, at the Interest Rate plus 2% (but in no event higher than the rate permitted by applicable Law) on overdue principal, overdue premium, if any, and (to the extent permitted by applicable Law) overdue interest and any other amounts payable hereunder which are overdue from the date when due until the date of payment.

Principal and interest and other amounts due hereunder shall be payable in immediately available funds at Bank of America, ABA Number: 121000358, for credit to: The CIT Group/Industrial Financing, Account Number 1233-5-18855, or at such other place as CIT shall have designated to the Borrower in writing. Each such payment shall be made on the date such payment is due and without any presentment or surrender of this Note, except that in the case of any final payment with respect to this Note, this Note shall be surrendered promptly thereafter by CIT to the Borrower. All such payments by the Borrower shall be free and clear of and without deduction for or on account of wire and other charges.

This Note is the Note referred to in the Security Agreement and

was issued by the Borrower pursuant to the terms of such agreement. Reference is hereby made to the Security Agreement for a description of the properties and assets in which a lien and security interest has been granted, a statement of the rights and obligations of the holder of, and the nature and extent of the security for this Note, to all of which terms and conditions in the Security Agreement the holder hereof agrees by its acceptance of this Note. Payment of this Note may be accelerated by CIT prior to the maturity of this Note under certain circumstances and conditions, in the manner and with the effect provided in the Security Agreement.

Except as provided above the Borrower may not voluntarily prepay this Note in whole or in part. Any prepayments of this Note shall be applied first to accrued interest and then to installments of principal in inverse order of maturity.

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed on the day and year set forth below.

GULFSTREAM AEROSPACE CORPORATION

By: /s/ Chris A. Davis

Name:

Title: Chief Financial Officer

Date: November 30, 1998

SCHEDULE I (1099)

AMORTIZATION SCHEDULE FOR THE PROMISSORY NOTE

SECURED PROMISSORY NOTE (1032)

\$17,000,000

New York, New York
November 30, 1998

FOR VALUE RECEIVED, GULFSTREAM AEROSPACE CORPORATION, a Georgia corporation (the "Borrower"), hereby promises to pay to THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation ("CIT"), or order, the principal amount of Seventeen Million United States Dollars (US\$17,000,000), in one hundred seven (107) consecutive equal monthly installments of principal, in arrears, commencing on the one year anniversary date of this Note, in the amount set forth on Schedule I hereto, and one (1) payment on the one hundred eighth (108th) Payment Date in the amount set forth on Schedule I hereto, together with interest on the amount of said principal sums remaining unpaid from time to time, payable in arrears commencing on the date of this Note, at an interest rate per annum equal to one and four tenths percent (1.4%) over one-month LIBOR (as defined below), but in no event greater than the rate of interest permitted pursuant to applicable Law (the "Interest Rate"). Interest shall be calculated on the basis of a 360-day year for the actual number of days elapsed. The date on which any payment shall be due hereunder shall be referred to as a "Payment Date". Notwithstanding the foregoing, the final payment made on this Note shall be in an amount sufficient to discharge in full the principal, premium, if any, and all accrued and unpaid interest on, and any other amounts due under this Note. Capitalized terms used herein and not defined herein shall have the meaning set forth in the Security Agreement (1032) dated as of November 30, 1998 (the "Security Agreement") between CIT and the Borrower.

For purposes hereof, "LIBOR" shall mean the one-month London Interbank Offered Rate of major banks for deposits of U.S. dollars appearing on Telerate Page 3750 as of 11:00 a.m., London, England time, two (2) Business Days prior to the beginning of the applicable interest Period (rounded to the nearest 1/100 of 1 percent). If such rate does not appear on the Telerate Page 3750, the rate for that Interest Period will be the last such rate that appeared on Telerate Page 3750, provided that if such rate did not appear on Telerate Page 3750 for a period of more than five Business Days prior to that date of determination, then the LIBOR Rate shall be determined from such source as CIT shall determine. "Telerate Page" means the display page so designated on the Telerate Service of Telerate Inc. (or such other market data vendor as may be nominated by CIT for the purpose of displaying rates or prices for U.S. dollar deposits for a period of one month).

For purposes hereof, "Business Day" shall mean any day other than a Saturday, Sunday or other day on which commercial banks in New York, New York (and, with respect to calculation of LIBOR, London, England) are required or authorized by law to be closed. If any payment under this Note becomes due and payable on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, together with interest at the Interest Rate with respect to such extension, provided, that if the result of such extension would be to extend such payment into another calendar month, such payment shall be made on the last Business Day of such calendar month.

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(i) in whole as a result of the occurrence of an Event of Loss with respect to the Aircraft as provided in Section 3.14 of the Security Agreement;

(ii) in whole upon the occurrence of an Event of Default as provided in the Security Agreement; or

Upon the occurrence of any of the events set forth in clauses (i) and (ii) above, the Borrower shall pay all unpaid principal on this Note plus accrued interest thereon to the date of such payment.

This Note may be voluntarily prepaid in whole by the Borrower on any Payment Date by (i) giving CIT prior written notice at least twenty (20) Business Days prior to such Payment Date, and (ii) paying to CIT on such Payment Date all outstanding and unpaid principal and accrued and unpaid interest calculated on an actuarial basis, without premium or penalty.

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This Note is the Note referred to in the Security Agreement and

was issued by the Borrower pursuant to the terms of such agreement. Reference is hereby made to the Security Agreement for a description of the properties and assets in which a lien and security interest has been granted, a statement of the rights and obligations of the holder of, and the nature and extent of the security for this Note, to all of which terms and conditions in the Security Agreement the holder hereof agrees by its acceptance of this Note. Payment of this Note may be accelerated by CIT prior to the maturity of this Note under certain circumstances and conditions, in the manner and with the effect provided in the Security Agreement.

Except as provided above the Borrower may not voluntarily prepay this Note in whole or in part. Any prepayments of this Note shall be applied first to accrued interest and then to installments of principal in inverse order of maturity.

IN WITNESS WHEREOF, the Borrower has caused this Note to be duly executed on the day and year set forth below.

GULFSTREAM AEROSPACE CORPORATION

By: /s/ Chris A. Davis

Name:

Title: Chief Financial Officer

Date: November 30, 1998

SCHEDULE I (1032)

AMORTIZATION SCHEDULE FOR THE PROMISSORY NOTE

FORM OF SECURITY AGREEMENT USED FOR EACH OF THE SECURED PROMISSORY NOTES FILED AS EXHIBITS 10.46, 10.47 AND 10.48. EACH SECURITY AGREEMENT COVERS ONE GULFSTREAM IV AIRCRAFT.

FORM OF SECURITY AGREEMENT (1032)

Dated as of November 30, 1998

By and Between

GULFSTREAM AEROSPACE CORPORATION
as Borrower

and

THE CIT GROUP/EQUIPMENT FINANCING, INC.
as Secured Party

One (1) Gulfstream Aerospace G-IV Aircraft
Manufacturer's Serial Number 1032
FAA Registration Number N432QS (formerly assigned N888UE)
Two (2) Rolls Royce Tay Model MK-611-8 Engines
Manufacturer's Serial Numbers 16163 and 16164, respectively

[This Schedule
Intentionally Omitted
from FAA filing copy]

SCHEDULE A (1032)

PRINCIPAL AMOUNT OF LOAN

Seventeen Million Dollars (\$17,000,000)

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SCHEDULE A - Principal Amount of Loan

SECURITY AGREEMENT (1032)

THIS SECURITY AGREEMENT (1032) is entered into as of November 30, 1998 (this "Agreement"), by and between GULFSTREAM AEROSPACE CORPORATION, a Georgia corporation (the "Borrower") and THE CIT GROUP/EQUIPMENT FINANCING, INC., a New York corporation (the "Secured Party").

RECITALS

A. The Borrower is the owner and manufacturer of a Gulfstream Aerospace G-IV Aircraft bearing manufacturer's serial number 1032 and U.S. registration number N432QS (formerly assigned N888UE) (the "Airframe") together with two Rolls Royce Tay Model MK-611-8 engines bearing manufacturer's serial numbers 16163 and 16164 (the "Engine(s)", and together with the Airframe and all parts relating to the Engines and the Airframe, the "Aircraft" and all available operating, repair, and maintenance records pertaining to the Aircraft (the "Records") and together with the Aircraft, the "Equipment")).

B. Pursuant to the loan between the Secured Party, as lender, and the Borrower, as borrower, the Secured Party has loaned to the Borrower the aggregate amount set forth in Schedule A attached hereto (the "Loan") in order that the Borrower shall finance the Aircraft. Such Loan is evidenced by a promissory note (the "Note"), which Note will be secured by (i) the Aircraft, (ii) the Lease and (iii) other Collateral pursuant to this Agreement.

C. Borrower, as lessor, has leased the Aircraft to EJI Sales, Inc. (the "Lessee") pursuant to the Aircraft Lease Agreement (the "Lease"), dated as of July 23, 1996, which Lease was recorded by the Federal Aviation Administration on October 25, 1996 and assigned Conveyance No. P08553.

NOW, THEREFORE, in consideration of the premises and in order to induce the Secured Party to make the Loan and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I
DEFINITIONS

As used in this Agreement, the following terms shall have the following definitions:

"Agreement" shall mean this Security Agreement (1032) and concurrent or subsequent exhibits or schedules to this Security Agreement (1032) and any extensions, supplements, amendments or modifications to this Security Agreement (1032) and/or to any such exhibits or schedules.

"Aviation Authority" shall mean the FAA.

"Business Day" shall mean any day other than a Saturday, Sunday or day on which commercial banking institutions in New York, New York are authorized by law to be closed.

"Closing Date" shall mean each date upon which the Secured Party shall make a Loan to the Borrower pursuant to the Note.

"Collateral" is defined in Section 2.01 of this Agreement.

"Event of Default" shall mean and include the occurrence of any one or more of the events of default set forth in Section 4.01 of this Agreement.

"Event of Loss" shall mean any of the following events with respect to any Collateral:

(i) loss of such property or of the use thereof due to theft, disappearance which continues for more than fifteen (15) days, destruction, damage beyond repair or rendition of such property permanently unfit for normal use for any reason;

(ii) any damage to such property which results in an insurance settlement with respect to such property on the basis of an actual, constructive or compromised total loss; or

(iii) the condemnation, confiscation or seizure of, or requisition to title to or use of, such property by any Governmental Authority which, in the case of a requisition for use, continues for more than fifteen (15) days.

"FAA" shall mean and refer to the United States Federal Aviation Administration or any successor or replacement administration or governmental agency having the same or similar authority and responsibilities.

"Financing Documents" shall mean this Agreement, the Note, the

Lessee Consent and the Guaranty, as originally executed and as the same may from time to time be supplemented or amended and any other document or instrument expressly declared to be a Financing Document.

"Governmental Authority" shall mean and include (a) the FAA; (b) any national government, or political subdivision thereof or local jurisdiction therein; (c) any board, commission, department, division, organ, instrumentality, court or agency of any entity described in (b) above, however, constituted; and (d) any association, organization, or institution of which any entity described in (b) or (c) above is a member or to whose jurisdiction any such entity is subject or in whose activities any such entity is a participant but only (except for purposes of defining Law below) to the extent that any of the preceding have jurisdiction over the Aircraft or its operations.

"Guaranty" shall mean the Guaranty (1032), dated November ____, 1998, made by Gulfstream Delaware Corporation, a Delaware corporation, and by Gulfstream Aerospace Corporation, a Delaware corporation, in favor of the Secured Party.

"Guarantors" shall mean each of (i) Gulfstream Delaware Corporation, a Delaware corporation and (ii) Gulfstream Aerospace Corporation, a Delaware corporation.

"Indemnitee" shall mean the Secured Party and its successors, permitted assigns, affiliates, agents, employees, servants, officers and directors.

"Insolvency Proceeding" shall mean and include any proceeding commenced by or against any person or entity, under any provision of the Federal Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including, but not limited to, assignments for the benefit of creditors, formal or informal moratoriums, compositions or extensions with some or all creditors.

"Insured Value" shall mean the amount of the Loan as set forth in Schedule A hereto.

"Interest Rate" shall have the meaning set forth in the Note.

"Judicial Officer or Assignee" shall mean and include any trustee, receiver, controller, custodian, assignee for the benefit of creditors or any other person or entity having powers or duties like or similar to the powers and duties of a trustee, receiver, controller, custodian or assignee for the benefit of creditors.

"Law" shall mean and include (a) any statute, decree, constitution, regulation, order, judgment or other directive of any Governmental Authority; (b) any treaty, pact, compact or other agreement to which any Governmental Authority is a signatory or party; (c) any judicial or administrative interpretation or application of any Law described in (a)

or (b) above; and (d) any amendment or revision of any Law described in (a), (b) or (c) above.

"Lessee Consent" shall mean the Consent Agreement and Acknowledgment (1032) dated as of November __, 1998 made by EJI Sales, Inc.

"Liens" shall mean any mortgage, pledge, lien, charge, encumbrance, lease, exercise of rights, security interest or claim.

"Maintenance Program" shall mean the Borrower's FAA approved maintenance program for the Aircraft and the Engines as the same may be amended from time to time with FAA approval, Secured Party's approval.

"Obligations" shall mean and include any and all loans, advances, overdrafts, debts, liabilities, obligations owing by the Borrower to the Secured Party pursuant to any Financing Document, including without limitation, any and all amounts due the Secured Party under the Note (whether now in force or hereafter executed and delivered), and any other Financing Document, any and all interest (including late payment charges) which is not paid when due, and any and all Secured Party Expenses which the Borrower is required to pay or reimburse pursuant to this Agreement, by law, or otherwise, or under covenants and duties owing by the Borrower to the Secured Party, of any kind or description, arising out of or in connection with, or related to the transactions contemplated by the Note, this Agreement, and any other Financing Document between the Borrower and the Secured Party entered into in connection therewith, whether direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising.

"Parts" shall mean, at any time, all parts, components, equipment, instruments, appliances, avionics, radio and radar devices, cargo handling systems and loose equipment that are at such time incorporated or installed in or attached to the Airframe or either Engine.

"Permitted Liens" shall mean (i) liens arising from taxes either not yet assessed or, if assessed, not yet due or contested in good faith so long as such proceedings do not involve any danger of sale, forfeiture or loss of the Collateral; and (ii) materialmen's, mechanic's, workmen's, repairmen's, employees', or other like liens arising by operation of law in the ordinary course of business for amounts which are either not yet due or are being contested in good faith by appropriate proceedings (and for which adequate reserves have been made or when required in order to pursue such proceedings, an adequate bond has been obtained) so long as such proceedings do not involve any danger of sale, forfeiture or loss of the Collateral.

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

"Proceeds" shall have the meaning assigned to it in the Uniform

Commercial Code in effect from time to time in New York, and in any event, shall include (i) any and all proceeds of any insurance, indemnity or, warranty payable to the Borrower from time to time with respect to the Aircraft or the Records; (ii) any and all payments (in any form whatsoever) made or due and payable to the Borrower from time to time in connection with any requisition, confiscation, condemnation, seizure or forfeiture of the Aircraft by any governmental body, authority, bureau or agency or any other Person (whether or not acting under color of governmental authority); and (iii) any and all proceeds of any sale, transfer or disposition and any and all other rents or profits or other amounts from time to time paid or payable in connection with the Aircraft or the Records.

"Related Transactions" shall mean any and all leases or secured financings of any aircraft between the Secured Party or any affiliate of the Secured Party, as lessor or secured party, and the Borrower or any affiliate of the Borrower, as lessee or obligor.

"Secured Party Expenses" shall mean and include all costs and expenses which the Borrower is required to pay or cause to be paid under this Agreement, and any other Financing Document, and which are paid or advanced by the Secured Party pursuant to the provisions hereof or thereof; all taxes and insurance premiums of every nature and kind which the Borrower is required to pay or cause to be paid under this Agreement and any other Financing Document, and which are paid or advanced by the Secured Party pursuant to the provisions hereof or thereof; all filing, recording, publication and search fees paid or incurred by the Secured Party in connection with the transactions contemplated by this Agreement and/or any other Financing Document; all costs and expenses paid or incurred by the Secured Party, to correct any default or enforce any provisions of this Agreement, the Note, or any other Financing Document, or in gaining possession of, maintaining, handling, preserving, storing, refurbishing, appraising, selling, preparing for sale and/or advertising to sell the Collateral, whether or not a sale is consummated; all costs and expenses of suit paid or incurred by the Secured Party in enforcing, or defending this Agreement, the Note, or any other Financing Document, or any portion of any thereof; and attorneys' fees and expenses paid or incurred by the Secured Party in advising, structuring, drafting, amending, terminating, enforcing (whether or not suit is brought and whether or not in connection with an Insolvency Proceeding), defending or concerning this Agreement, the Note, or any other Financing Document, or any portion of any thereof.

"Securities Act" shall mean the Securities Act of 1933, as amended.

"Transportation Act" shall mean 49 U.S.C. Section 40101, et. seq., as amended, as in effect on the date of this Agreement, or any successor or substitute legislation at the time in effect and applicable.

ARTICLE II
CREATION OF SECURITY INTEREST

Section 2.01. Security Interest in the Collateral; Assignment. In consideration of the making of the Loan by the Secured Party to the Borrower, the Borrower does hereby sell, assign, transfer and set over to the Secured Party and its successors and assigns, and does hereby grant to the Secured Party and its successors and assigns, a continuing security interest in and lien upon the following, whether now or hereafter acquired (the "Collateral"), in order to secure prompt repayment of any and all Obligations owed by the Borrower to the Secured Party and in order to secure prompt performance of any and all other Obligations to be performed by the Borrower:

(a) all of the Borrower's right, title and interest in and to the Equipment wherever located and whether now or hereafter existing, and whether presently owned or hereafter acquired and any and all documents, instruments and agreements relating to Borrower's acquisition of the Equipment and all attachments, replacements, substitutions, additions, proceeds and all log books or title thereto; and

(b) all right, title, interest of the Borrower in, to and under the Lease, together with all rights, powers, privileges, options and other benefits thereunder, including, without limitation, the immediate and continuing right to demand, receive and collect all rent thereunder, income, revenues, issues, profits, insurance proceeds, condemnation awards and other payments, maintenance and other reserves, escrowed funds, tenders and security, including, without limitation, security deposits and all other collateral (cash and non-cash) securing any payment, performance or other obligations of the Lessee now or hereafter payable under the Lease pursuant thereto, and the right to make all waivers and agreements, to give and receive duplicate copies of all notices and other instruments or communications, to take such action upon the occurrence of a default or an event of default thereunder, including, without limitation, the commencement, conduct and consummation of legal, administrative or other proceedings, as shall be permitted by the Lease, or by law, and to do any and all other things whatsoever which the Borrower or any lessor is or may be entitled to do under the Lease.

The Secured Party's security interest in, lien upon, and rights under, the Collateral shall attach to all of the Collateral upon the execution and delivery of this Agreement, without further act being required on the part of either the Secured Party or the Borrower.

ARTICLE III
REPRESENTATIONS, WARRANTIES, AND COVENANTS OF THE BORROWER

The Borrower represents and warrants (with respect to Sections 3.01 through 3.06 hereof), and covenants (with respect to Sections 3.07 through 3.21 hereof) to the Secured Party as follows:

Section 3.01. Existence; Authorization. It is a corporation duly

organized, validly existing and in good standing under the laws of Georgia and is a "citizen of the United States" within the meaning of Section 40102(a)(15) of the Transportation Act. The execution, delivery and performance by the Borrower of this Agreement, and the other Financing Documents to which it is a party (i) do not and will not contravene any Financing Document, any law or any contractual restriction binding upon Borrower and (ii) do not and will not result in or require the creation of any lien, security interest or other encumbrance upon or with respect to any of its properties, other than in favor of the Secured Party. The Borrower has all requisite power and authority to conduct its business and perform its obligations under this Agreement and the other Financing Documents to which it is a party and it has duly authorized by all requisite action the execution, delivery and performance of each of the Financing Documents to which it is a party. The Borrower is not a party to any agreement or instrument or subject to any restriction materially adversely affecting its business, operations, property, assets or condition, financial or otherwise or its ability to perform its obligations under this Agreement, any of the other Financing Documents or any agreement or instrument thereunder to which it is a party and is not in default in the performance, observance or fulfillment of the material obligations, covenants, or agreements contained in any agreement or instrument to which it is a party or by which it or any of its property or assets are bound. When executed and delivered, this Agreement and each of the Financing Documents to which it is a party will constitute its valid, legal, binding and enforceable obligation except as such enforceability may be limited by applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting the rights of creditors generally.

Section 3.02. No Adverse Pending Actions. There are no actions, suits or proceedings pending, or to its knowledge, threatened against or affecting it by any governmental department, board, agency or instrumentality or before any arbitrator which, if adversely determined, would have a material adverse effect on its business or assets or would materially impair its abilities to perform its obligations under this Agreement or any of the other Financing Documents to which it is a party. The Borrower is not in default under any applicable order, writ, injunction or decree of any court, governmental department, board, agency, or instrumentality or of any arbitrator and no Event of Default, or event which with the giving of notice or the lapse of time or both would constitute an Event of Default, under any Financing Document has occurred and is continuing.

Section 3.03. Government Authorizations. The Borrower has obtained in respect of this Agreement and each of the other Financing Documents to which it is a party and the transactions contemplated hereby and thereby, on or prior to the date hereof all governmental permissions, rights, licenses and permits to carry out the transactions contemplated hereby or thereby. The Borrower has not received notice and has no knowledge of any violation of any applicable Law, regulation, order or requirement which would have a material adverse effect on its business or on the transactions contemplated by the Financing Documents, and which has

not been complied with or corrected in all material respects. True and complete copies of all such governmental permissions, rights, licenses and permits which have been obtained have been supplied to the Secured Party by it.

Section 3.04. Taxes. The Borrower has filed or caused to be filed (or has obtained a valid extension of time to file) all tax returns, if any, required by any Federal, state or local government or other taxing authority in the United States of America or by any foreign government or other taxing authority, which it is required to file and has paid or caused to be paid all taxes as shown on such returns or on any assessment received by it to the extent that such taxes have become due (or is contesting such taxes in good faith by appropriate procedures and has established adequate reserves for the payment thereof). It has established reserves adequate for the payment of additional taxes for years which have not been audited by the respective tax authorities.

Section 3.05. Interest in Note. Neither the Borrower nor anyone acting on its behalf has directly or indirectly offered an interest in any Note for sale to, or solicited any offer to acquire the same from, any Person which offer or solicitation would subject the same to registration under the Securities Act, and neither the Borrower nor anyone acting on its behalf will take any action which would subject any interest in any Note to registration under the Securities Act.

Section 3.06. Collateral Documents. The provisions of the Financing Documents are effective to create in favor of the Secured Party a legal, valid and enforceable lien on and security interest in the Collateral, and when the filings and recordations required by the terms hereof have been duly effected, the Financing Documents will constitute a fully perfected security interest in the Collateral, superior in right to all other Liens, existing or future (except such other Liens as are permitted under this Agreement).

Section 3.07. Registration and Insignia. The Borrower shall prior to or concurrently with the mortgaging of the Aircraft hereunder cause, the Airframe to be duly registered, and at all times thereafter to remain duly registered, in the name of the Borrower. The Borrower shall not remove, or cause or permit the removal of, any plate, disc or other similar device affixed to the Airframe or any Engine indicating the Secured Party's security interest therein. The Borrower shall not allow the name of any other person, association or corporation other than the Lessee to be placed on the Airframe or any Engine as a designation that might be interpreted as a claim of ownership or of any interest therein; provided, however, that the Borrower may cause the Airframe to be lettered or otherwise marked in an appropriate manner for convenience of identification of the interest of the Borrower therein.

Section 3.08. Compliance with Laws. The Borrower shall neither use the Collateral, nor permit the Collateral to be used, for any unlawful purpose or contrary to any statute, law, ordinance or regulation relating

to the registration, use, operation or control of the Collateral. The Borrower shall comply with, or cause to be complied with, at all times and in all material respects, all statutes, laws, ordinances and regulations of the United States (including, without limitation, the FAA), and of all other governmental, regulatory, or judicial bodies applicable to the use, operation, maintenance, overhauling, or condition of the Collateral; provided, that the Borrower shall have the right to contest any of the foregoing with the appropriate authorities so long as such contest does not place the Collateral in danger of sale, forfeiture or loss or otherwise adversely affect the Secured Party's security interest.

Section 3.09. Maintenance and Repair. The Borrower shall cause the Aircraft to be serviced, repaired, overhauled, tested and maintained in compliance with all applicable FAA regulations, (i) by personnel in accordance with FAA requirements, (ii) in accordance with the Maintenance Program and the operations and maintenance manuals of the manufacturers thereof (including, without limitation, an FAA approved or manufacturer's recommended program for the prevention and treatment of corrosion), (iii) so as to keep the Aircraft in as good operating condition and appearance as when first manufactured, ordinary wear and tear excepted, and (iv) so as to keep the Aircraft in such operating condition as shall be necessary to cause the airworthiness certificate of the Aircraft to be maintained in good standing at all times under the applicable rules and regulations of the Aviation Authority.

Section 3.10. Insurance. The Borrower shall at all times, at its own cost and expense, maintain, or cause to be maintained, a policy of insurance with respect to the Collateral, in accordance with the following provisions:

(a) The Borrower shall maintain in effect comprehensive third party aircraft liability insurance against bodily injury and property damage losses arising from ground, flight and taxiing exposures, including, but not limited to, passenger legal liability, cargo liability, contractual liability and products liability insurance, in an amount not less than \$50,000,000 for any one accident, or series of accidents arising out of any one event, with respect to the Aircraft. Such policy shall include war and allied risks in accordance with standard market practice (currently "The Extended Coverage Endorsement-AVN 52C"). Any such liability insurance policy may be subject to a deductible in an amount not to exceed \$100,000 per occurrence. All such policies shall be maintained in effect with insurers and/or reinsurers of recognized reputation and responsibility, reasonably satisfactory to the Secured Party. To the extent commercially available, coverages shall not contain a Year 2000, GPS or other date recognition exclusion.

(b) The Borrower shall maintain in effect with insurers and/or reinsurers of recognized reputation and responsibility reasonably satisfactory to the Secured Party: (A) all-risk ground and flight aircraft hull insurance covering the Aircraft (including taxiing exposures) with an agreed value loss valuation clause; (B) all-risk coverage with respect to

any Engines, parts or landing gear while removed from the Aircraft insured on a replacement cost basis; and (C) war risk and hijacking (including political/non-political hijacking and acts of terrorism) coverage, including, but not limited to, coverage against confiscation, expropriations, nationalization or seizure, including the country of registry (if other than the United States). All such insurance shall be in full force and effect throughout any geographical areas at any time traversed by the Aircraft, shall be payable in Dollars in the United States and shall be in the amount of not less than the Insured Value from time to time in effect. Any hull insurance carried in accordance with this Section 3.10 shall not contain any provision for self-insured amounts or a deductible, provided that such insurance may be subject to a deductible which does not exceed \$100,000 per occurrence. Each Engine, after removal, shall be insured for not less than \$2,500,000 under a ground risks policy reasonably acceptable to the Secured Party.

(c) The Borrower will name or cause to be named each Indemnitee as an additional insured on all policies of insurance and the Secured Party as sole loss payee, to the extent their interests may apply, to the Aircraft with respect to the aircraft hull insurance coverage; provided, that in respect of partial losses to the Aircraft, so long as the insurers have not received written notice that an Event of Default, or an event which with time or notice or both would become an Event of Default has occurred, the amounts that are equal to or less than \$1,000,000.00 shall be payable to the Borrower. Loss with respect to the Aircraft in excess of \$1,000,000.00 shall be payable to Secured Party in an amount not to exceed the then outstanding Obligations with respect to the Aircraft. The Borrower shall cause all parties who may have an interest in the proceeds of such policies to acknowledge, in writing, that the Secured Party has a prior interest in such proceeds. Each and every such policy under this Section 3.10 shall (i) provide that in respect of the interests of the Secured Party and the other Indemnities in such policies, such insurance shall not be invalidated by any action or inaction of the Borrower, the Secured Party or any Indemnitee or any other Person and shall insure the Secured Party and the other Indemnities regardless of any breach or violation of any warranty, declaration or condition contained in such policies by the Borrower or any Indemnitee or any other Person; (ii) provide that, if such insurance is canceled for any reason whatever, or any material change is made in policy terms or conditions, or if such insurance is allowed to lapse for nonpayment of premium, such cancellation, change or lapse shall not be effective as to any Indemnitee for thirty (30) days and in the case of any war risk or allied perils coverage, seven (7) days after receipt by them of written notice from such insurers or their authorized representatives of such cancellation, change or lapse; (iii) provide that such insurers shall hold harmless and waive any rights of subrogation against each Indemnitee; (iv) be primary without right of contribution from any other insurance that is carried by any Indemnitee; (v) waive any rights of set-off, counterclaim or other deduction against any Indemnitee; (vi) provide that the Secured Party shall have no obligation or liability for premiums, commissions, assessments, representations or warranties or calls in connection with such insurance; (vii) provide that all the provisions

thereof, except the limits of liability, shall operate in the same manner as if there were a separate policy covering each Indemnitee; and (viii) in respect to casualty insurance shall provide that proceeds shall be paid to the Secured Party Lender so long as this Agreement is in effect for distribution to the parties.

(d) On or before the Closing Date and prior to the renewal or replacement date of any insurance policy required hereunder, the Borrower shall provide the Secured Party with written certifications by a firm of independent insurance brokers acceptable to the Secured Party with respect to the types, amounts and policy numbers of insurance in effect as of the date of execution and delivery of this Agreement and certifying that in the opinion of such firm the insurance then carried and maintained complies with the terms of this Section 3.10. The original certificate of insurance shall be in a form acceptable to the Secured Party.

(e) In the event that the Borrower should, for any reason, fail to renew or cause to be renewed any such policy or contract of insurance, the Secured Party shall have the option to pay the premiums on any such policy or contract of insurance, or to take out new insurance in such amounts, types, coverage, and terms as the Secured Party may determine to be prudent, and any sums paid therefor shall constitute Secured Party Expenses, shall be payable by the Borrower on demand, and shall be added to and be a part of and included in the Obligations.

(f) The Borrower shall not use or permit the Collateral to be used in any manner or for any purpose excepted from or contrary to the requirements of any insurance policy or policies required to be carried and maintained hereunder and shall not do any other act or permit anything to be done which could reasonably be expected to invalidate or limit any such insurance policy or policies.

(g) All insurance payments received by the Secured Party and the Borrower from insurance referred to in Section 3.10(b) and paid other than as the result of an Event of Loss with respect to the Aircraft shall be paid over to or retained by the Secured Party, and shall then be paid to the Borrower upon certification that repairs satisfactory to the Secured Party have been completed in a workmanlike manner and in compliance with FAA regulations and the requirements of this Agreement; provided, that so long as no Event of Default, or event which with time or notice or both would become an Event of Default has occurred, insurance payments which are equal or less than \$100,000 shall be immediately paid to or retained by the Borrower. The Secured Party shall advance funds received from time to time for any agreed portion of the repair work which funds shall be applied to the extent necessary to repair damage to the Aircraft; provided that the Secured Party shall not be required to make any such payment if an Event of Default or an event which with time or notice or both would become an Event of Default has occurred and is continuing, and such amount shall be held and either (A) paid to the Borrower if such default shall be cured and no other default or Event of Default shall have occurred and be continuing or (B) applied in accordance with the terms of Section 4.02 if an Event of

Default shall occur and then be continuing.

Section 3.11. Inspection; Records; Information.

(a) At any reasonable time, on demand by the Secured Party, the Borrower shall cause the Collateral (including the Records) to be made available to the Secured Party, as the case may be (or persons designated by the Secured Party, as the case may be) for purposes of inspection and, with respect to the Records, copying; provided, however, that the Borrower's operations shall not be interrupted thereby.

(b) The Borrower shall keep accurate and complete logs, manuals, books and records relating to the Collateral, and will provide the Secured Party with copies of such reports and information relating to the Collateral as the Secured Party may reasonably require from time to time.

(c) The Borrower shall provide such other information regarding the Collateral as may be reasonably requested by the Secured Party from time to time.

Section 3.12. Title; Liens.

(a) The Borrower holds good and marketable title in the Equipment subject to this Agreement.

(b) The Borrower will not suffer or permit any security interest, lien, charge or other encumbrance to attach to or exist relative to the Collateral, except for Permitted Liens and the lien of this Agreement, whether voluntarily or involuntarily, and whether by issuance of judicial process, levy or otherwise, until all of the Obligations have been completely discharged. The Borrower shall at its own cost and expense promptly take such action as may be necessary to discharge duly all Liens on the Aircraft, the Engines or any Parts thereof (i) resulting from claims against the Borrower or (ii) created, granted or assumed by the Borrower (other than any Lien created or permitted by the Financing Documents).

(c) The Borrower shall not directly or indirectly assign, convey or otherwise transfer any of its right, title or interest in the Collateral without the prior written consent of the Secured Party.

Section 3.13. Notice of Default. The Borrower will promptly give the Secured Party notice of any Event of Default or event which, after notice or lapse of time or both, would constitute an event of default under any Financing Document.

Section 3.14. Event of Loss.

(a) Upon the occurrence of an Event of Loss with respect to the

Aircraft, the Borrower shall forthwith (and in any event within two (2) Business Days after such occurrence) give the Secured Party written notice of such Event of Loss, and the Secured Party and the Borrower shall proceed diligently and cooperate fully with each other in the recovery of any and all proceeds of insurance applicable thereto. Upon the earlier of the date (a) which is 60 days after the occurrence of such an Event of Loss or (b) on which insurance proceeds are received with respect to such Event of Loss, the Borrower shall pay to the Secured Party an amount required to pay in full any outstanding Obligations secured by this Agreement, including, without limitation, interest at the Interest Rate, which shall continue to accrue with respect to the Note until the date on which such payment is received by the Secured Party. At such time as the Secured Party shall have received all amounts necessary to satisfy the outstanding Obligations, the Borrower's obligations hereunder shall terminate. The Borrower shall be entitled to receive all insurance proceeds from policies maintained by the Borrower applicable to the Aircraft over and above the Obligations, if any.

(b) Upon the occurrence of an Event of Loss with respect to an Engine under circumstances in which there has not occurred an Event of Loss with respect to the Aircraft, the Borrower shall forthwith (and in any event within two (2) Business Days after such occurrence) give the Secured Party written notice thereof and the Borrower shall replace such Engine as soon as reasonably possible, by duly conveying to the Secured Party, free and clear of all Liens, a valid security interest to another Rolls Royce Tay Model MK-611-8 engine of the same or an improved model and suitable for installation and use on the Airframe, which engine shall have a value and utility at least equal to, and be in as good operating condition as, the Engine with respect to which such Event of Loss shall have occurred (based on but not limited to all life-limited engine components and time since last heavy maintenance and/or time since last hot section refurbishment), assuming such Engine was of the value and utility and in the condition and repair as required by the terms hereof immediately prior to the occurrence of such Event of Loss. Such replacement engine shall be deemed an "Engine" as defined herein for all purposes hereunder. The Borrower agrees to take such action and execute and deliver such documents, including, but not limited to, a supplement hereto and legal opinions, as the Secured Party may reasonably request in order that the Secured Party shall have a valid perfected security interest in any such replacement Engine to the same extent as any Engine replaced thereby. The Secured Party will assign to the Borrower all casualty insurance proceeds arising from such Event of Loss to the Engine(s).

Section 3.15. Mergers and Consolidations. At least twenty (20) days prior to the effective date of any merger or consolidation, Borrower shall provide written notice of the merger or consolidation and Borrower covenants that after any merger or consolidation, the surviving company will have a net worth equal to or greater than the net worth of the Borrower.

Section 3.16. Financial Information. The Borrower shall furnish such financial information as the Secured Party may reasonably request at

any time concerning the Borrower and its respective affairs.

Section 3.17. Taxes, Duties, Fees, Claims and Charges. The Borrower shall pay or cause to be paid all taxes, assessments, license fees and other public or private charges when levied or assessed against the Collateral.

Section 3.18. Overdue Payments. In case any payment of principal of or interest on the Note or any amount due under the Financing Documents is not paid when due (notwithstanding any grace period), the Borrower shall, to the extent permitted by applicable Law, pay interest at the Interest Rate plus 2% on such amount from the date when due until the date of payment.

Section 3.19. Citizenship. The Borrower agrees that if at any time the Borrower has ceased to be a "citizen of the United States" as defined in Section 40102(a)(15) of the Transportation Act, the Borrower will promptly notify the Secured Party, and if such citizenship is then necessary to maintain the eligibility of the Aircraft for United States registration, shall promptly convey the Aircraft to a trust or other entity acceptable to the Secured Party which is or which shall qualify as a "citizen of the United States" as defined above, at the direction of the Secured Party.

Section 3.20. Possession. The Borrower will not without the Secured Party's consent, sell, rent, lend, secrete, encumber, transfer or otherwise dispose of the Collateral.

Section 3.21. Indemnity. Borrower shall indemnify and save Secured Party harmless from and against any and all liability, loss, damage, expense, causes of action, suits, claims or judgments arising from or caused directly or indirectly by (i) Borrower's failure to promptly perform any of its obligations under the provisions of this Security Agreement, (ii) injury to person or property resulting from or based upon the actual or alleged use, operation, delivery or transportation of the Aircraft or (iii) inadequacy of the Aircraft for any purpose or any deficiency or defect therein or the use or maintenance thereof or any repairs, servicing or adjustments thereto or any delay in providing or failure to provide any thereof or any interruption or loss of service or use thereof or any loss of business; and shall, at its own cost and expense, defend any and all suits which may be brought against Secured Party, either alone or in conjunction with others upon any such liability or claim or claims and shall satisfy, pay and discharge any and all judgments and fines that may be recovered against Secured Party in any such action or actions, provided, however, that Secured Party shall give Borrower written notice of any such claim or demand.

ARTICLE IV
EVENTS OF DEFAULT AND REMEDIES

Section 4.01. Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default under this Agreement and the Note:

(a) the Borrower shall fail to pay principal or interest under the Note when due whether at maturity by acceleration, mandatory prepayment or otherwise and such payment shall not have been made within five (5) days after such due date; or

(b) the Borrower breaches any warranty or provision hereof, or of any note or of any instrument or agreement delivered by Borrower to Secured Party; or

(c) the Borrower shall fail to procure or maintain the insurance coverage required pursuant to the terms of Section 3.10 of this Agreement, or shall operate the Aircraft outside the scope of the insurance coverage maintained with respect to the Collateral; or

(d) any representation made by the Borrower under this Agreement or any Financing Documents, or made in writing in connection herewith or therewith, shall have been incorrect in any material respect on the date on which made, in the case of a representation, or shall be breached materially, in the case of a warranty; or

(e) A petition in bankruptcy or for arrangement or reorganization is filed by or against the Borrower or Borrower admits its inability to pay its debts as they mature; or

(f) the Borrower shall default in the performance or observance of any covenant, term or condition contained in any Related Transaction and (i) shall not have caused such default to be cured within any applicable grace period provided by the applicable agreements, and (ii) the effect of such default is to cause (after notice or lapse of time or both), or to permit the lessor or secured party under such Related Transaction to terminate such transaction or exercise remedies, or

(g) all or any of the Collateral is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any Judicial Officer or Assignee except to the extent such event constitutes an Event of Loss; or

(h) a notice of levy is filed of record with respect to any or all of the Collateral by the United States Government or any department, agency or instrumentality thereof; provided, however, that the Borrower shall have ten (10) days to remove such notice from record if, in the Secured Party's opinion, such levy is curable; or

(i) any Guarantor for Borrower defaults in any obligation or liability to Secured Party or any Guaranty obtained in connection with this transaction is terminated or breached.

Section 4.02. Remedies Upon Default. Upon the occurrence of an Event of Default, the Secured Party may, at its election, and without notice and without demand, do any one or more of the following to the fullest extent permitted by Law, all of which are authorized by the Borrower:

(a) Declare all of the Obligations immediately due and payable upon which declaration such Obligations shall be accelerated and immediately due and payable;

(b) Take possession, by its agents or otherwise, of the Collateral wherever found, with or without notice of process of law, and hold, store and/or use, operate, manage and control the Collateral, and collect and receive all Proceeds, rents, revenues, issues and profits of the Collateral and every part thereof;

(c) Grant extensions and compromise claims with respect to the Collateral, and settle claims with respect to the Collateral for less than face value on commercially reasonable terms, all without prior notice to the Borrower;

(d) Retain the Collateral in full satisfaction of the Obligations secured thereby as permitted by the Uniform Commercial Code in effect in the applicable jurisdiction, or sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and such places as is commercially reasonable.

(e) All costs and expenses incurred by the Secured Party in connection with the enforcement and/or exercise of any of its rights or remedies herein shall be immediately payable by the Borrower, upon demand, and shall constitute Secured Party Expenses hereunder, whether or not suit is commenced;

(f) With or without taking possession of the Collateral, take legal proceedings for:

(i) The specific performance of any covenant or agreement contained herein, or the execution of any right or power herein granted;

(ii) Foreclosure hereunder;

(iii) The sale, under the judgment or decree of any court of competent jurisdiction, of all or any part of the Collateral;

(iv) The appointment of a receiver or receivers of all or part of the Collateral pending any foreclosure hereunder or the sale of all of the Collateral, by any court of competent jurisdiction or under executory or other legal process;

(v) The recovery of the unpaid balance of the Obligations; or

(vi) The enforcement of any other appropriate remedy, whether under this Agreement or available at law or in equity, or otherwise.

(g) Exercise any and all other rights and remedies of a secured party under the Uniform Commercial Code in the applicable jurisdictions.

(h) Upon the occurrence at any time of an Event of Default and during its continuance under this Agreement, the Secured Party shall have the right to declare, by notice to the Borrower the outstanding principal of the Note and all other amounts otherwise due and owing to the Secured Party under this Agreement or any of the other Financing Documents to be immediately due and payable, whereupon the same, together with interest thereon and all additional amounts as may be necessary to compensate the Secured Party for any loss (including any loss or expense incurred in liquidation or employing fixed deposits acquired from third parties to maintain the Note as scheduled) and any expense (including the expense of any sale, the expense of any taking of property, attorneys' fees, court costs and other expenses or advances made or incurred by the Secured Party in the protection of rights or the pursuance of remedies under this Agreement or any of the Financing Documents) accrued to the date of declaration shall become and be immediately due and payable, without presentment, demand, protest or notice of any kind, all of which are hereby waived, and the Borrower agrees that upon such declaration they will immediately pay the same to the Secured Party.

(i) The Secured Party may, to the extent permitted by applicable Law, bring suit at law, in equity, and/or other appropriate proceedings, whether for the specific performance or observance or otherwise of any terms or conditions contained in this Agreement or any other Financing Documents, or for an injunction against the violation of any power granted hereby or thereby, or by law to recover judgment for any and all amounts due under the Note, this Agreement or any of the Financing Documents.

After payment in full of all amounts owed under this Security Agreement and the Financing Documents, any excess amounts received by Secured Party will be returned to Borrower or deposited on behalf of Borrower in a court of competent jurisdiction.

Section 4.03. Waiver. The Borrower waives, to the extent permitted by Law, any right it may have to a hearing prior to the disposition of any of the Collateral by the Secured Party following the occurrence of an Event of Default, or prior to the exercise of the Secured Party's right of set-off as herein provided.

Section 4.04. Application of Proceeds. The proceeds of any disposition of the Collateral, including any remarketing of the Collateral,

the net earnings of any lease thereof, or other agreement relating to the use of the Collateral, and any amounts received as a result of the exercise of any of the rights, powers and remedies of the Secured Party herein granted, including the right to collect the proceeds of any insurance received on account of the Collateral (the "Default Proceeds"), shall be available for application and shall be applied as follows:

(i) First, to the repayment of all the Secured Party Expenses.

(ii) Second, to the repayment of all other Obligations of the Borrower to the Secured Party in such order as the Secured Party shall elect.

(iii) Third, to the Borrower or as any court of competent jurisdiction may otherwise direct.

Section 4.05. Termination. If all of the Obligations shall be fully paid, performed and satisfied, including all payments and performances, agreements and covenants due the Secured Party under the Note and the other Financing Documents, then the security interest and lien of the Secured Party in the Collateral shall thereupon terminate. In any such case, the Secured Party shall, upon the request of the Borrower, execute and deliver to the Borrower proper instruments acknowledging the termination of the security interest.

Section 4.06. Remedies Cumulative. Each and every power and remedy herein specifically given to the Secured Party or otherwise in this Agreement or any of the Financing Documents shall be cumulative and shall be in addition to any other power and remedy herein specifically given or now or hereafter existing at law, in equity, or by statute. The Secured Party may waive any Event of Default by written notice to that effect to the Borrower but no such waiver shall extend to or affect any subsequent or other Event of Default or impair any rights or remedies consequent thereon.

Section 4.07. Construction, Applicable Law; Jurisdiction. THIS AGREEMENT SHALL IN ALL RESPECTS BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE WITHOUT REGARD TO CONFLICT OF LAWS PRINCIPLES. The Borrower hereby irrevocably submits to and accepts with regard to any such action or proceeding, for itself and in respect of its assets, generally and unconditionally, the jurisdiction of any court of the State of New York or any court of the United States located in New York, New York.

ARTICLE V
MISCELLANEOUS PROVISIONS

Section 5.01. Successors and Assigns. All of the covenants, promises, stipulations and agreements contained herein shall bind each

party and its successors and assigns, and shall inure to the benefit of the other party and its respective successors and permitted assigns, except that the Borrower may not assign or transfer any of its rights under this Agreement without the prior written consent of the Secured Party. Secured Party shall not assign any of its rights under this Agreement without the prior written consent of the Borrower for 12 months from the date hereof.

Section 5.02. Entire Agreement. This Agreement, together with the Schedule and the other Financing Documents referred to herein, constitute the entire understanding between the parties with respect to the subject matter hereof. All prior agreements, understandings, representations, warranties and negotiations, if any, are merged into this Agreement, and this Agreement is the entire agreement between the Borrower and the Secured Party relating to the subject matter hereof. This Agreement cannot be changed or terminated orally, but only by a instrument in writing signed by the Borrower and the Secured Party.

Section 5.03. Notices. All notices provided for herein shall be in writing and shall be deemed to have been given when delivered personally, when telexed or telecopied, or if deposited in the United States mail, when received addressed as follows:

if to the Borrower, at:

Gulfstream Aerospace Corporation
500 Gulfstream Road
Savannah, Georgia 31402-2206
Attention: Robert Williams, Treasurer
Telecopier: 912-965-3756

if to the Secured Party, at:

The CIT Group/Equipment Financing, Inc.
1540 Fountainhead Parkway
Tempe, Arizona 85282

Attention: Vice President, Credit
Telecopier: (602) 858-1496

with copy to:

The CIT Group/Equipment Financing, Inc.
650 CIT Drive
Livingston, New Jersey 07039

Attention: Chief Credit Officer
Telecopier: (201) 740-5005

Section 5.04. Continuing Lien and Security Interests; Transfer.

This Agreement shall create a continuing lien and security interest in the Collateral and shall (i) remain in full force and effect until payment and performance in full of all of the Obligations, (ii) be binding upon the Borrower, its successors and assigns, and (iii) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of the Secured Party, and its respective successors, transferees and assigns.

Section 5.05. Counterparts and Dating. This Agreement may be executed in two or more counterparts, each of which shall constitute an original, but all of which, when taken together, shall constitute but one instrument. Although this Agreement is dated as of the date first above written for convenience, the actual dates of execution hereof are the dates indicated below the signatures of the parties hereto and this Agreement shall be effective on the latest of such dates.

IN WITNESS WHEREOF, the parties have caused this Security Agreement to be executed and delivered as of the day and year set forth below.

GULFSTREAM AEROSPACE CORPORATION
Borrower

By: /s/ Ira Berman

Name:

Title: Senior Vice President and
General Counsel

Date: November 30, 1998

THE CIT GROUP/EQUIPMENT FINANCING, INC.
Secured Party

By: /s/ Mark Saylor

Name:

Title: Senior Vice President

Date: November 30, 1998

FORM OF GUARANTY USED FOR EACH OF THE SECURED PROMISSORY NOTES FILED AS EXHIBITS 10.46, 10.47 AND 10.48

GUARANTY
Single Transaction

TO: THE CIT GROUP/EQUIPMENT FINANCING, INC., Secured Party

This guaranty is being given in connection with Security Agreement and Promissory Note dated November 30, 1998, between

GULFSTREAM AEROSPACE CORPORATION, a Georgia corporation, debtor, and, THE CIT GROUP/EQUIPMENT FINANCING, INC., secured party.

Each of us severally requests you to enter into the foregoing Security Agreement and to induce you to do so and in consideration thereof, each of us, as a primary obligor, jointly, severally and unconditionally guarantees to you that debtor will fully and promptly pay and perform all its obligations to you under the Security Agreement, whether direct or indirect, joint or several, absolute or contingent, secured or unsecured, matured or unmatured, irrespective of any invalidity of unenforceability of any such obligation or the insufficiency, invalidity or unenforceability of any security therefor, and agrees without your first having to proceed against debtor or to liquidate any security therefor, to pay on demand all sums due and to become due to you from debtor and all losses, costs, attorneys' fees or expenses which may be suffered by you by reason of debtor's default or default of any of the undersigned and agrees to be bound by and on demand to pay any deficiency established by a sale of the security held, with or without notice to us. This guaranty is an unconditional guarantee of payment and performance. No guarantor shall be released or discharged, either in whole or in part, by your failure or delay to perfect or continue the perfection of any security interest in any property which secures the obligations of debtor to you under the foregoing Security Agreement, or to protect the property covered by such security interest.

No termination shall be effective except by notice sent to you by certified mail return receipt requested naming a termination date effective not less than 90 days after the receipt of such notice by you; or effective as to any of us who has not given such notice; or affect any transaction effected prior to the effective date of termination.

Each of us waives: notice of acceptance hereof; presentment, demand, protest and notice of nonpayment or protest as to the foregoing Security Agreement; any and all rights of subrogation, reimbursement, indemnity, exoneration, contribution or any other claim which any of us may now or

hereafter have against the debtor or any other person directly or contingently liable for the obligations guaranteed hereunder, or against or with respect to the debtor's property (including, without limitation, property collateralizing its obligations to you), arising from the existence or performance of this guaranty; all setoffs and counterclaims; any and all defenses based on suretyship or any other applicable law, including without limitation all rights and defenses arising out of (i) an election of remedies by you even though that election of remedies may have destroyed rights of subrogation and reimbursement against the debtor by operation of law or otherwise, (ii) protections afforded to the debtor pursuant to antideficiency or similar laws limiting or discharging the debtor's obligations to you, (iii) the invalidity or unenforceability of this guaranty, (iv) the failure to notify any of us of the disposition of any property securing the obligations of the debtor, (v) the commercial reasonableness of such disposition or the impairment, however caused, of the value of such property, and (vi) any duty on your part (should such duty exist) to disclose to any of us any matter, fact or thing related to the business operations or condition (financial or otherwise) of debtor or its affiliates or property, whether now or hereafter known by you.

You may at any time without our consent, without notice to us and without affecting or impairing the obligation of any of us hereunder, do any of the following:

- (a) renew, extend, modify (including changes in interest rates), release or discharge any obligations of debtor or co-guarantors;
- (b) accept partial payments of debtor's obligations under the Security Agreement;
- (c) accept new or additional documents, instruments or agreements relating to or in substitution of debtor's obligations under said Security Agreement;
- (d) settle, release (by operation of law or otherwise), compound, compromise, collect or liquidate any of debtor's obligations under the Security Agreement and the security therefor in any manner;
- (e) consent to the transfer or return of the security, and take and hold additional security or guaranties for debtor's obligations under the Security Agreement;
- (f) amend, exchange, release or waive any security or guaranty; or
- (g) bid and purchase at any sale of the security and apply any proceeds or security, and direct the order and manner of sale.

If a claim is made upon you at any time for repayment or recovery of any amount(s) or other value received by you, from any source, in payment of or on account of any of the obligations of debtor guaranteed hereunder and you repay or otherwise become liable for all or any part of such claim by

reason of:

- (a) any judgment, decree or order of any court or administrative body having competent jurisdiction; or
- (b) any settlement or compromise of any such claim,

we shall remain jointly and severally liable to you hereunder for the amount so repaid or for which you are otherwise liable to the same extent as if such amount(s) had never been received by you, notwithstanding any termination hereof or the cancellation of any note or other agreement evidencing any of the obligations of debtor. This guaranty shall bind our respective heirs, administrators, representatives, successors, and assigns, and shall inure to your successors and assigns, including, but not limited to, any party to whom you may assign the Security Agreement, we hereby waiving notice of any such assignment. All of your rights are cumulative and not alternative.

This Guaranty is to be interpreted and the rights of the parties governed by the laws of the State of New York.

By execution of this guaranty each guarantor hereunder agrees to waive all rights to trial by jury in any action, proceeding, or counterclaim on any matter whatsoever arising out of, in connection with, or related to this guaranty.

Executed November 30, 1998.

CORPORATE GUARANTORS

GULFSTREAM AEROSPACE CORPORATION, a Delaware Corporation

Name of Corporation

City State Zip code

/s/ Chris A. Davis Title EVP & CFO

Have signed by President, Vice President or Treasurer.

CORPORATE SEAL

/s/ Ira Berman

Attest Secretary

GULFSTREAM DELAWARE CORPORATION, a Delaware corporation

Name of Corporation

City

State

Zip Code

By /s/ Chris A. Davis

Title EVP & CFO

Have signed by President, Vice President or Treasurer

CORPORATE SEAL

/s/ Ira Berman

Attest

Secretary

Breaking Records

Delivering Results

[GRAPHIC OMITTED]
[IMAGE OF GULFSTREAM V]

1998 Annual Report

BREAKING RECORDS, DELIVERING RESULTS

1998 was a year of outstanding performance for Gulfstream Aerospace Corporation. The Company achieved a record 90 new aircraft orders plus 18 options, closed the year with a backlog* comprised of 135 Gulfstream IV-SP and Gulfstream V aircraft valued at approximately \$4.3 billion, including options, grew earnings per share nearly 80 percent to \$3.00 and received aviation's most prestigious award, the Robert J. Collier Trophy for aeronautical excellence. Through the focused execution of our business plan and by adeptly responding to a dynamic competitive environment, Gulfstream solidified its leadership in business aviation and firmly positioned the Company for future growth. Looking ahead, Gulfstream is poised to continue to deliver exceptional shareholder value well into the future.

* Reported financial contract backlog is comprised of 106 aircraft valued at \$3.3 billion. This excludes 18 options and 11 aircraft under contract but not yet delivered into the Middle East Shares fractional ownership program. Reported new orders, excluding undelivered aircraft intended for the Middle East Shares program, totaled 79.

FINANCIAL HIGHLIGHTS

	Year ended December 31,		
	1998	1997	1996
(Dollars in millions, except per share amounts and units)			
AIRCRAFT DELIVERIES	61	51	27
NET REVENUES	\$ 2,428.0	\$ 1,903.5	\$ 1,063.7
PRO FORMA FULLY TAXED EPS*	\$ 3.00	\$ 1.68	\$ 0.37
FINANCIAL CONTRACT BACKLOG**	\$ 3,301.9	\$ 2,782.1	\$ 3,104.0
CLOSING STOCK PRICE	\$ 53.25	\$ 29.25	\$ 24.13

* Diluted EPS, see Notes to the Consolidated Financial Statements.

** Excludes 18 options and 11 Middle East Shares aircraft valued at approximately \$1.0 billion.

[CHART OMITTED]
[BAR GRAPH]

AIRCRAFT DELIVERIES		CLOSING STOCK PRICE	
1996	27	1996	\$24.13
1997	51	1997	\$29.25
1998	61	1998	\$53.25

NET REVENUES		PRO FORMA FULLY TAXED EARNINGS PER SHARE	
1996	\$1,063.7	1996	\$0.37
1997	\$1,903.5	1997	\$1.68
1998	\$2,428.0	1998	\$3.00

On the Front Cover

In 1998, the Gulfstream V continued to break aeronautical records and the Company continued to achieve record-setting operating and financial performance. Gulfstream has now contracted for 136 Gulfstream V aircraft, well before the competing aircraft is in service.

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DEAR SHAREHOLDERS

1998 was another record year for Gulfstream. We exceeded all of our key operating and financial goals and reported the largest number of new aircraft orders in our history, leaving us with a year-end backlog, including options, of 135 aircraft valued at \$4.3 billion. Our successful production expansion and strategic acquisition of K-C Aviation positions Gulfstream for increased revenues and earnings into the new millennium. We have never been more confident of our ability to sustain profitable growth and create ongoing shareholder value.

As the Gulfstream V continued to break aeronautical records, we were achieving record-setting operational and financial performance. Revenues increased 28 percent to \$2.4 billion while fully taxed earnings per share increased nearly 80 percent to \$3.00. We produced and delivered 61 production aircraft, outfitted 54 aircraft and grew our service business by 40 percent.

We used our substantial cash flow to make strategic, value-creating investments and moved decisively to expand our product portfolio. The acquisition of the leading independent large cabin completions and service provider, K-C Aviation, added three facilities and a talented workforce to support the Company's growth in interior outfitting and significantly expand our aircraft services business. This acquisition is accretive to 1999 earnings by approximately \$0.10 per share. Early in the year, the Company also announced a \$200 million stock repurchase program and proceeded throughout the year to repurchase 5.5 million shares at an average price of \$35.81.

Demand for our products was stronger than ever as we successfully continued to expand our markets. The Gulfstream V's exceptional performance led to 40 firm aircraft orders, plus 15 options -- exceeding the number recorded in any year since the aircraft's introduction. Executive Jet ordered 22 Gulfstream Vs (including 12 options) for introduction into the North American Shares program with delivery of aircraft beginning in the year 2000. In addition, this fine product continued to make significant inroads in capturing the government and special mission market. With significant first-to-market advantage, we have now contracted for 136 Gulfstream Vs before the competition has delivered its first aircraft into service.

The Gulfstream IV-SP continues to be the most popular large cabin business jet ever. We took orders for 50 aircraft, plus three options, including a successful expansion of the Gulfstream Shares [Registered Trademark] program into the Middle East with a 12 aircraft contract. Along with the Gulfstream Vs, Executive Jet ordered 14 Gulfstream IV-SPs for the rapidly expanding North American Shares program, resulting in the largest aircraft order in the history of business aviation.

In 1998, we created another market expansion opportunity with the introduction of Gulfstream LeaseSM through a venture with GATX Capital. Once again, Gulfstream is first-to-market with a short-term operating lease product for both the Gulfstream IV-SP and the Gulfstream V. The initial program order was for six aircraft -- five Gulfstream Vs and one Gulfstream IV-SP -- and includes options for three more of each.

The Company also made significant progress toward our goal to penetrate the U.S. and international government special mission market with the Gulfstream V. The United States Air Force took delivery of the first two

completed Gulfstream Vs under the VC-X program and ordered two additional Gulfstream Vs. The U.S. Air Force Contract

[GRAPHIC OMITTED]
[IMAGE OF GULFSTREAM OFFICERS]

GULFSTREAM'S OFFICE OF THE CHIEF EXECUTIVE INCLUDES CHRIS A. DAVIS, THEODORE J. FORSTMANN AND W. W. BOISTURE, JR. (LEFT TO RIGHT)

includes options for up to three more Gulfstream Vs. The government of Kuwait also ordered three Gulfstream Vs. We continue to expect to see more opportunities in government and special mission applications for this great aircraft.

Our two fine aircraft brought in 90 new orders, plus 18 options, in 1998 leaving Gulfstream with 135 aircraft under contract valued at \$4.3 billion. Sixty percent of these orders, including options, will deliver from 2000 through 2007. Seventy-six percent of the backlog is in North America, predominantly with Fortune 500 companies and the Gulfstream Shares Program. The remaining 24 percent is international and, with the exception of the Middle East Shares Program, is spread throughout the world with no significant portion in any single economic region.

Gulfstream continued to profitably execute its plan to increase production to meet strong customer demand. In 1998, deliveries of new aircraft increased 20 percent to 61 aircraft and we delivered 54 outfitted aircraft into service. Gross margins improved to 23.6 percent versus 20.0 percent in the prior year as we implemented strategies to improve processes and reduce cycle time.

1998 also saw significant growth in Aircraft Services with the strategic addition of facilities in Dallas, Texas, Appleton, Wisconsin and Westfield, Massachusetts. Revenues for this part of our business increased 40 percent and we now have the capability to service non-Gulfstream mid-size and large cabin aircraft. In addition, this business also includes engine and auxiliary power unit repair and overhaul. This provides us with future growth opportunities, as well as the ability to provide full-service maintenance to customers with multi-aircraft fleets.

In December 1998, we restructured our management team to better meet the needs of Gulfstream's next phase of growth. The newly created Office of the Chief Executive and Ted Forstmann's assumption of the role of Chief Executive Officer reinforces our personal commitments to Gulfstream and positions us to take full advantage of Gulfstream's still enormous growth opportunities. Over the past five years, we have built a strong and deep management team, which has nearly tripled the size of our business. The realignment of the organization and the promotions of several of these key leaders, who have the talent and drive to further expand our market in the years ahead, supports our goal of continuing double-digit earnings growth going forward.

As we enter 1999, the outlook remains excellent with an expected increase in earnings per share of 25 percent. We plan to deliver 65 new aircraft and complete the ramp-up of completions to match the level of production in the future. The Company ended 1998 at the required production rate and level of quality to meet this delivery schedule. We are confident that the progress we have made on production efficiencies will continue and that we have the right team in place to drive those same kind of efficiencies into the completions process.

Including our three new service locations, service revenues are expected to grow at least 20 percent in 1999. The Company now commands approximately 75 percent market share in Gulfstream maintenance services and has the opportunity to grow share in the non-Gulfstream product lines. Profitability in this part of our business is forecasted to improve as the new locations realize the cost advantage of volume purchases from suppliers and the full benefit of the integration is achieved.

Looking ahead, the Company expects at least 15 percent earnings growth in 2000. Much of this earnings growth will be driven by continuing manufacturing improvements in both completions and production, as well as favorable prices on aircraft currently in the backlog.

We will continue to invest for future growth and creation of shareholder value. On March 1, 1999, the Company announced an additional \$200 million

share repurchase program. This new program reflects our continued strong confidence in Gulfstream's current performance and future growth prospects.

In addition, the Company has plans to invest \$30 million in capital equipment and business systems and \$15 million in research and development in 1999 to support the revenue and earnings projections at our eight locations and to keep our products at the forefront of technology.

1998 was an exceptional year for Gulfstream, one in which we exceeded our goals in every area of our business and produced significant shareholder return. We are proud of our accomplishments and our 7,700 employees who contributed to Gulfstream's success. The outlook for Gulfstream remains strong and we are confident of our ability to successfully execute our plans for growth.

We are committed to continuing to set the standard for business aviation through excellence in products, service and financial return.

/s/ Theodore J. Forstmann
THEODORE J. FORSTMANN
Chairman of the Board and Chief Executive Officer
Chairman, Office of the Chief Executive

/s/ W.W. Boisture, Jr.
W.W. BOISTURE, JR.
President and Chief Operating Officer
Member of the Office of the Chief Executive

/s/ Chris A. Davis
CHRIS A. DAVIS
Executive Vice President and
Chief Financial and Administrative Officer
Member of the Office of the Chief Executive

[GRAPHIC OMITTED]
[IMAGE OF AIRCRAFT PRODUCTION]

In 1998, Gulfstream produced 61 aircraft, up 20 percent over 1997.

DELIVERING RESULTS, DEFINING THE FUTURE

Gulfstream again delivered more than it promised in 1998. Just as importantly, we took steps to define our future and generate exceptional earnings growth for 1999 and beyond. We achieved record sales and earnings, aggressively expanded distribution channels for our products, significantly expanded our production capacity and service market share through the acquisition of K-C Aviation, realigned our resources to more effectively capitalize on our strengths and expanded our portfolio of services to meet our customers' needs and broaden our sources of revenue. Gulfstream continues to set the standard for business aviation and is well positioned to continue our leadership position well into the future.

BUILDING A DIVERSIFIED PRODUCT PORTFOLIO TO MEET MARKET NEEDS

From Sydney to St. Louis, Gulfstream is known for setting the standard in business aviation. We sustain our reputation for excellence by offering the highest quality, most reliable business aircraft to the most discerning customers -- national and multinational corporations, governments and private individuals. More than 900 Gulfstream aircraft are in service today -- connecting cities and people and making commerce prosper in 50 countries on six continents. Our growing and diverse customer base spans the spectrum of industry -- from household names to emerging enterprises. Two-thirds of all U.S. Fortune 500 companies operating large cabin business jets -- including all of the top ten -- and 34 governments operate Gulfstream aircraft. In addition, more than half of all Gulfstream buyers are repeat customers -- a distinct advantage in today's competitive market. Overall, Gulfstream leads the large cabin category of business jets with

approximately 60 percent market share.

A number of factors fueled the strong demand for the Gulfstream IV-SP and the ultra-long range Gulfstream V. Foremost is the fact that Gulfstream aircraft are proven to be the world's most technologically advanced, reliable and safe business aircraft. Customers look to our aircraft to provide a level of safety, security and convenience unavailable on commercial airlines. And they view our products as an indispensable business tool that offers an opportunity to gain an advantage in a highly competitive worldwide market. Independent surveys taken in 1997 found that, among corporations operating business aircraft, 100 percent of senior management, more than 60 percent of middle managers and over 40 percent of sales professionals use these products in the normal course of business. In fact, corporate jets are considered a significantly more productive work environment than commercial airlines.

In 1998, we aggressively took steps to capitalize on our leadership position, leverage the Gulfstream brand, expand access to our markets and meet our customers' changing needs. By being first to market with product, service and financing innovations, we now offer more customers than ever the opportunity to experience the value of the Gulfstream brand with transportation solutions provided by Gulfstream products.

Gulfstream Shares is the industry's most successful large cabin fractional ownership program with 80 aircraft now under contract. In 1998, we expanded the program to include the Gulfstream V aircraft and introduced Gulfstream IV-SP fractional ownership into the Middle East. More than 100 new customers have joined the Gulfstream family as part of the Shares program since its launch in 1995.

Introduced in 1998, Gulfstream Lease is the first short-term operating lease program available in business aviation. By requiring no capital investment and offering lease terms ranging from two to five years at competitive rates, Gulfstream Lease offers a flexible new approach to aircraft operation.

Gulfstream Financial Services Corporation (GFSC) offers flexible financing solutions tailored to individual customer needs. Through private label relationships with financing providers, GFSC has financed over \$400 million since 1996.

To provide service for Gulfstream operators, the Company operates a network of service centers, authorized warranty providers and parts depots in eight countries, as well as worldwide field service representatives. To assist customers in fulfilling their charter needs, Gulfstream introduced Gulfstream Charter ServicesSM in 1998. Gulfstream also now offers Gulfstream Management ServicesSM which provides comprehensive flight crew, hangar and aircraft maintenance management for customers.

As our products, services and fleet of Gulfstream aircraft have grown, we have made strategic investments to support this growth. We used our strong cash flow to acquire K-C Aviation, the industry's leading independent provider of aircraft completions services, with facilities in Appleton, Wisconsin, Dallas, Texas and Westfield, Massachusetts. This \$250 million acquisition gives Gulfstream two critical competitive advantages. First, it offers the opportunity to increase the number of aircraft interiors we complete to match production levels and meet customer demand. Second, it expands our service and maintenance capacity and positions the Company to grow our service revenues for both Gulfstream and other mid-size and large cabin aircraft.

[GRAPHIC OMITTED]
[IMAGE OF RUNWAY]

[GRAPHICS OMITTED]
[IMAGES OF GULFSTREAM IV-SP AND V]

Gulfstream now offers multiple opportunities for customers to fly in the Gulfstream IV-SP, the world's best-selling, large cabin business jet, and the Gulfstream V, the world's first ultra-long range business aircraft. Customers can now benefit from these fine aircraft through the Gulfstream Shares fractional ownership program, Gulfstream Lease short-term operating leases or direct purchase of an entire aircraft.

[GRAPHIC OMITTED]
[IMAGE OF TEST FACILITY AND TEST FACILITY EMPLOYEE]

Gulfstream's Integrated Test Facility ensures high quality aircraft systems integration in the manufacturing process.

TECHNOLOGICAL LEADERSHIP THROUGH QUALITY, PERFORMANCE AND RELIABILITY

THE GULFSTREAM V

The Gulfstream V, the world's first ultra-long range business aircraft, continued to exceed expectations in 1998. Orders for this revolutionary aircraft totaled 55 in 1998, including 15 options. By year-end, we had sold 136 Gulfstream Vs, a very powerful start for a new aircraft certified by the Federal Aviation Administration less than two years ago. Early in the year, the Gulfstream V was recognized with American aviation's greatest honor -- the Robert J. Collier Trophy. Also in 1998, the record flight of the Gulfstream V from Washington, D.C. to Dubai, United Arab Emirates was recognized among the "Ten Most Memorable Flights in 1997".

Like all preceding Gulfstream aircraft, the Gulfstream V represents the standard of performance, reliability, safety and comfort against which other aircraft are measured. Cruising effortlessly at speeds up to Mach 0.885 or nearly 600 miles per hour, the Gulfstream V can fly 6,500 nautical miles at 51,000 feet -- high above weather and commercial aircraft traffic. While renowned for its ultra-long range capabilities, the Gulfstream V is equally well suited to short-range missions -- New York to Chicago, Paris to Milan, Hong Kong to Beijing. With a proven ability to take off and land at more airports than any aircraft in its class, the Gulfstream V offers its owners unsurpassed flexibility. In every aspect, this record-setting aircraft continues to exceed customer expectations and outperform the competition.

The Gulfstream V also offers unparalleled versatility in interior furnishings and equipment, as well as expanded baggage capacity. It is the only aircraft in its class to provide 100 percent fresh air in the cabin and maintain a constant 6,000 foot cabin pressure -- effectively minimizing the wear and tear effects common in long distance commercial airline travel.

The Gulfstream V's flexible operating capability, altitude, high speed, and ultra-long range has led to its rapid acceptance as a special mission aircraft for government and military use. To date, the United States Government has ordered four Gulfstream V aircraft and holds options for up to three additional aircraft.

In late 1998, two Gulfstream V aircraft entered service with the United States Air Force (USAF) 89th Airlift Wing, also known as the Presidential Wing. Designated VC-X or C-37A, these specially outfitted Gulfstream Vs provide worldwide transportation for senior government officials and dignitaries. Also in 1998, the U.S. Army's Priority Air Transport Squadron ordered a Gulfstream V for outfitted delivery in the fourth quarter of 1999. In early 1999, the USAF ordered an additional aircraft for use by the Commanders In Chief of the Unified Commands. Gulfstream will provide technical and logistic support, spare parts and overhaul services to the Department of Defense in support of these aircraft.

Outside the United States, the Gulfstream V is also recognized as an exceptional special mission aircraft. In 1998, the Government of Kuwait purchased three Gulfstream V aircraft to provide worldwide airlift and unprecedented ultra-long range medical evacuation capabilities.

[GRAPHIC OMITTED]
[IMAGE OF AIRCRAFT FUSELAGE IN MANUFACTURING]

THE GULFSTREAM IV-SP

In 1998, the Gulfstream IV-SP further solidified its leadership position in the large cabin, long range business aircraft market segment. Fifty-three aircraft were ordered in 1998, including three options, bringing the total number of Gulfstream IV/IV-SP aircraft sold to 423. This remarkable aircraft continues to outsell its nearest competitor by a two-to-one margin.

The continued strong demand for the Gulfstream IV-SP attests to its extraordinary ability to perform on demand, at unmatched levels of safety and comfort. Its 4,220 nautical mile range is enough to connect Chicago and

Madrid, London and Dubai, Hong Kong and Perth, and Buenos Aires and Cape Town. Like the Gulfstream V, the Gulfstream IV-SP flies high above commercial air traffic at 45,000 feet and offers a 100 percent fresh air environmental control system with a constant cabin pressure of 6,500 feet, well below the 8,000 foot cabin pressure of commercial airliners travelling at 35,000 feet.

Its record of performance, reliability and flexibility also makes the Gulfstream IV-SP a preferred platform for special purpose missions ranging from medical evacuation, scientific and weather research and military surveillance to V.I.P. transport. Nearly 50 Gulfstream IV/IV-SP aircraft support government and military needs in 21 countries around the world.

Looking ahead, we expect the Gulfstream IV-SP to remain the leader in large cabin, long range business aviation. The aircraft's digital design will readily incorporate new advances in avionics, electronics and telecommunications while its airframe and engine combination offers unparalleled performance.

CUSTOMIZED INTERIORS

Gulfstream aircraft appeal to a wide spectrum of customers because they combine exceptional technical performance with flexible, high quality interior designs. Today, Gulfstream has achieved its goal of providing interiors for every aircraft it produces. Gulfstream aircraft can be outfitted as a virtual office just as readily as an airborne hospital emergency room with state-of-the-art life support equipment. Characteristics like these provide a significant advantage for Gulfstream customers.

To increase completions capacity consistent with the Company's accelerated production plan, Gulfstream acquired K-C Aviation, the industry's leading independent provider of aircraft completions and service, from the Kimberly-Clark Corporation in August, 1998 for approximately \$250 million. This strategic acquisition gave Gulfstream additional facilities and equipment for interior completions, as well as an experienced and talented team of 1,200 employees. Gulfstream now completes aircraft interiors at five locations -- Appleton, Wisconsin, Brunswick, Georgia, Dallas, Texas, Long Beach, California and Savannah, Georgia.

To help drive cost efficiencies while continuing to provide the industry's highest quality completions, Gulfstream is aggressively integrating the best practices across all locations into the overall interior design and production process.

In 1998, Gulfstream also opened a new \$8.5 million, 60,000 square foot, state-of-the-art paint facility at its Long Beach, California location. Combined with paint facilities at Appleton, Dallas and Savannah, Gulfstream is positioned to increase the number of aircraft completed per year and attract large maintenance and interior refurbishment jobs.

GULFSTREAM'S TEAM OF TALENTED AND DEDICATED CRAFTSMEN PRODUCE THE INDUSTRY'S HIGHEST QUALITY CUSTOM INTERIORS.

[GRAPHIC OMITTED]
[IMAGES OF AIRCRAFT INTERIORS AND COMPLETION EMPLOYEES]

DELIVERING VALUE-ADDED SERVICES TO CUSTOMERS WORLDWIDE

Gulfstream has taken significant steps to meet the changing needs of its customers and expand the market for its products. The result is a broad portfolio of products and services that leverage the brand and strategically position the Company to be the first choice provider of transportation solutions for customers worldwide.

SUCCESSFULLY EXPANDING PRODUCT OFFERINGS

Gulfstream has expanded the market for the Gulfstream IV-SP and Gulfstream V aircraft by creating new distribution channels. Innovative programs such as Gulfstream Shares and Gulfstream Lease offer customers an opportunity to gain the advantage of a Gulfstream without the investment required for full aircraft purchase.

Gulfstream Shares, a program offering fractional ownership interests in

Gulfstream aircraft, is a key contributor to Gulfstream's growth. Introduced in 1995 in conjunction with Executive Jet (EJ), Gulfstream Shares offers the opportunity to own one-eighth, one-quarter and one-half shares in Gulfstream aircraft. To date, more than 100 owners -- including many first-time aircraft operators -- have joined the Gulfstream family through this program. Nearly half of Gulfstream Shares customers did not previously own an aircraft and over 85 percent have never owned a Gulfstream. Eighteen Gulfstream IV-SPs are currently in service in the Shares program.

The Gulfstream Shares program grew substantially in 1998. In October, EJ placed the largest order in business aviation's history for 14 Gulfstream IV-SP and 10 Gulfstream V aircraft plus options for 12 additional Gulfstream Vs. Valued at approximately \$1.3 billion including a maintenance services arrangement, this agreement expanded the Gulfstream IV-SP program and added the ultra-long range Gulfstream V in North America. Now customers that require the extended range and high-performance capabilities of the Gulfstream V for only a portion of their transportation needs can cost-effectively acquire a share of this asset.

At the end of 1998, 68 aircraft valued at \$2 billion, including the options, were under contract with EJ for the Gulfstream Shares program in North America. Deliveries of these aircraft extend through 2007.

1998 marked further success for the Gulfstream Shares concept as we introduced a fractional ownership program into the Middle East with the sale of 12 Gulfstream IV-SP aircraft valued at \$335 million to a group of Middle East investors. The first aircraft will go into operational service late in the second quarter of 1999. Gulfstream will provide technical, sales and marketing support while the operation of the fleet will be managed by EJ. We continue to see future expansion opportunities for the Gulfstream Shares program in other regions around the world.

In September 1998, we introduced Gulfstream Lease, the industry's first short-term operating lease program. Created in conjunction with GATX Capital, a diversified international financial services corporation, Gulfstream Lease provides greater flexibility and ease of entry to customers by eliminating the up-front capital investment and offering lease terms from two to five years at competitive rates. Emerging growth companies, enterprises with short-term projects such as manufacturing expansion or the integration of an acquisition, companies with off-balance sheet financing requirements or companies awaiting delivery of a new Gulfstream aircraft may find this a valuable alternative to aircraft ownership.

The newly formed Gulfstream GATX Leasing Company is owned 85 percent by GATX Capital and 15 percent by Gulfstream. Gulfstream will provide sales, marketing and aircraft maintenance services and GATX will provide account management services for the program.

[GRAPHIC OMITTED]
[IMAGE OF AIRCRAFT]

[GRAPHIC OMITTED]
[IMAGE OF AIRCRAFT, HANGAR AND MEETING]

In 1998, Gulfstream successfully expanded the Gulfstream Shares program to include the Gulfstream V aircraft and the Middle East region.

[GRAPHIC OMITTED]
[IMAGE OF AIRCRAFT ENGINE AND MECHANIC]

Gulfstream now offers service for Gulfstream aircraft at six North American locations. The Company also services Hawker, Falcon and Challenger aircraft at three locations: Appleton, Wisconsin, Dallas, Texas and Westfield, Massachusetts.

[GRAPHIC OMITTED]
[IMAGE OF PEOPLE]

To launch Gulfstream Lease, the venture signed contracts valued at more than \$400 million for five Gulfstream V, one Gulfstream IV-SP and options for three Gulfstream V and three Gulfstream IV-SP aircraft. The first aircraft will be delivered into service at the end of 1999.

24 HOURS-A-DAY CONVENIENCE FOR OUR CUSTOMERS

The purchase of a Gulfstream aircraft is the first step in building a long-term relationship with our customer. The Company has service centers in Appleton, Wisconsin, Brunswick, Georgia, Dallas, Texas, Long Beach, California, Savannah, Georgia and Westfield, Massachusetts, as well as a network of worldwide Gulfstream-authorized service warranty centers and parts depots available to service aircraft maintenance needs. By focusing on the customer and improving turn times, we have increased our market share in service successfully over the past three years. Today, we service three out of every four Gulfstream aircraft in operation. Revenues for Gulfstream's Aircraft Services business increased 40 percent in 1998 to \$281.8 million, including the impact of the acquisition of the Appleton, Dallas and Westfield facilities.

As the worldwide Gulfstream fleet continues to increase, Aircraft Services provides important growth opportunities for the Company. The acquisition of the Appleton, Dallas and Westfield facilities supports the expansion of this strategic business and allows Gulfstream to offer convenient coast-to-coast service in the United States. Gulfstream also will now service Hawker, Falcon and Challenger business jets at the new locations, an advantage for customers whose aircraft fleets include a variety of aircraft models. The acquisition also strongly establishes the Gulfstream name in the engine and auxiliary power unit service market. Over the longer term, Gulfstream expects to use its expanded capacity to provide paint and refurbishment services to mid-size and large cabin aircraft operators, an important differentiating feature in attracting large maintenance contracts.

To help customers manage maintenance costs, Gulfstream offers a comprehensive, nose-to-tail maintenance program with guaranteed hourly costs. Gulfstream ServiceCareSM covers virtually every part, component, assembly and system on the aircraft for a ten-year period.

In 1998, Gulfstream introduced Gulfstream Charter Services to assist our customers in chartering Gulfstream aircraft. Gulfstream Charter Services monitors availability of Gulfstream aircraft for charter, ensuring that the charter aircraft adhere to strict standards, are operated by a qualified crew and reflect, as much as possible, personal preferences in comfort and in-flight service.

Gulfstream Management Services simplifies aircraft ownership by offering flight operations and maintenance services for Gulfstream customers. Offered through an alliance with Chrysler Pentastar Aviation, a world leader in aviation service and support, Gulfstream Management Services provides crew, hangar facilities, dispatch scheduling and maintenance management. It is the ideal solution for customers who want the benefits of owning a Gulfstream without the accompanying complexities of fleet management. It is also expected to appeal to customers leasing an aircraft on a short-term basis through Gulfstream Lease.

SOUND STRATEGIES, EXPERT EXECUTION

Five years ago, Gulfstream established a vision to "Set the Standard for Business Aviation through Excellence in Products, Services and Financial Return." Our strategy was clear -- to bring the Gulfstream V to market well ahead of the competition, to capitalize on the success of the Gulfstream IV-SP and to offer new products and services to meet our customers' changing needs.

We have successfully executed our strategy and significantly grown revenues and earnings while expanding our sources of revenue to provide for future growth. By focusing on our core competencies, maintaining technical leadership in our products and driving process improvements across all business areas, we realized a nearly 80 percent increase in earnings in 1998 to \$3.00 per share and expect to grow earnings an additional 25 percent in 1999 to \$3.75 per share.

Gulfstream increased production from 27 aircraft in 1996 to 61 aircraft in 1998 and we expect to deliver 65 new aircraft in 1999. This production increase was accomplished with a capital investment of approximately \$35 million. In addition to our revenue growth, the increase in earnings has

been realized through cost productivity on Gulfstream IV-SP and Gulfstream V coproduction. In 1998, the manufacturing hours to build the Gulfstream IV-SP and the Gulfstream V were reduced by 14 percent and 27 percent, respectively. We will continue to focus on driving cost efficiencies and quality through process improvements developed by cross-functional teams working together to meet our goals. We expect to see margin expansion going forward as we apply this same approach to our completions and service businesses.

We plan to invest \$15 million annually in research and development over the next several years to ensure that our products remain at the forefront of technological advancement. These investments will be primarily focused on the integration of useful technology into the Gulfstream IV-SP and the Gulfstream V while seeking ways to continuously improve the reliability and the cost of operations for these outstanding products.

We are also focused on sustaining a culture based on teamwork and entrepreneurial spirit. We will continue to lead our employees in an environment supported by these values:

- o We take personal and professional pride in the integrity, quality and safety of products and services we sell and provide to our customers.
- o We expect to treat each other and our customers with the greatest respect.
- o We work diligently, supportively and safely as "One Team."
- o We are committed to achieving excellent business performance for our shareowners.
- o We are committed to sustaining an action-oriented environment of continuous improvement, risk taking and personal integrity.

As we look forward, Gulfstream is well positioned for continued growth with a broader set of product offerings -- the Gulfstream IV-SP, the Gulfstream V, Gulfstream Shares, Gulfstream Lease, Gulfstream Worldwide Service, Gulfstream Financial Services, Gulfstream Pre-Owned Aircraft, Gulfstream Charter Services and Gulfstream Management Services -- which will provide transportation solutions to customers worldwide. We have never been more confident in our ability to sustain profitable growth and create ongoing shareholder value.

OVER THE PAST FIVE YEARS, GULFSTREAM HAS BUILT A STRONG MANAGEMENT TEAM WHICH HAS NEARLY TRIPLED THE SIZE OF THE BUSINESS AND HAS THE TALENT AND DRIVE TO EXPAND OUR MARKETS IN THE YEARS AHEAD.

[GRAPHIC OMITTED]
[IMAGE OF GULFSTREAM LEADERSHIP TEAM]

GULFSTREAM NOW OFFERS A BROAD RANGE OF TRANSPORTATION PRODUCTS AND SERVICES

GULFSTREAM LEASE		GULFSTREAM SHARES
GULFSTREAM WORLDWIDE SERVICE	[GRAPHIC OMITTED] [IMAGES OF GULFSTREAM V & GULFSTREAM IV-SP]	GULFSTREAM PRE-OWNED AIRCRAFT
	GULFSTREAM CHARTER SERVICES	
GULFSTREAM FINANCIAL SERVICES		GULFSTREAM MANAGEMENT SERVICES
	GULFSTREAM CHARTER SERVICES	

BOARD OF DIRECTORS

[GRAPHIC OMITTED]
[IMAGE OF R. ANDERSON]
Robert Anderson
Chairman Emeritus
Rockwell International Corporation

[GRAPHIC OMITTED]
[IMAGE OF C. L. BEERS]
Charlotte L. Beers

Chairman
J. Walter Thompson

[GRAPHIC OMITTED]
[IMAGE OF T. D. BELL, JR.]
Thomas D. Bell, Jr.
Chairman & Chief Executive Officer
Young & Rubicam Advertising

[GRAPHIC OMITTED]
[IMAGE OF W. W. BOISTURE, JR.]
W. W. Boisture, Jr.
President & Chief Operating Officer
Gulfstream Aerospace Corporation

[GRAPHIC OMITTED]
[IMAGE OF C. A. DAVIS]
Chris A. Davis
Executive Vice President &
Chief Financial & Administrative Officer
Gulfstream Aerospace Corporation

[GRAPHIC OMITTED]
[IMAGE OF L. FORESTER]
Lynn Forester
Co-Chief Executive Officer
FirstMark Communications
International L.L.C.

[GRAPHIC OMITTED]
[IMAGE OF N. C. FORSTMANN]
Nicholas C. Forstmann
Founding General Partner
Forstmann Little & Co.

[GRAPHIC OMITTED]
[IMAGE OF T. J. FORSTMANN]
Theodore J. Forstmann
Chairman & Chief Executive Officer
Gulfstream Aerospace Corporation
Founding General Partner
Forstmann Little & Co.

[GRAPHIC OMITTED]
[IMAGE OF S. J. HORBACH]
Sandra J. Horbach
General Partner
Forstmann Little & Co.

[GRAPHIC OMITTED]
[IMAGE OF J. T. JOHNSON]
James T. Johnson
Former President & Chief Operating Officer
Gulfstream Aerospace Corporation

[GRAPHIC OMITTED]
[IMAGE OF H. A. KISSINGER]
Henry A. Kissinger
Chairman
Kissinger Associates, Inc.
Former U.S. Secretary of State

[GRAPHIC OMITTED]
[IMAGE OF D. LEWIS]
Drew Lewis
Former Chairman & Chief Executive Officer
Union Pacific Corporation

[GRAPHIC OMITTED]
[IMAGE OF M. H. MCCORMACK]
Mark H. McCormack
Chairman, President & Chief Executive Officer
International Management Group

[GRAPHIC OMITTED]
[IMAGE OF B. T. MOSS]
Bryan T. Moss
Vice Chairman
Gulfstream Aerospace Corporation

[GRAPHIC OMITTED]
[IMAGE OF M. S. OVITZ]
Michael S. Ovitz
CKE Investments

[GRAPHIC OMITTED]
[IMAGE OF A. E. PAULSON]
Allen E. Paulson
Chairman Emeritus
Gulfstream Aerospace Corporation

[GRAPHIC OMITTED]
[IMAGE OF R. S. PENSKE]
Roger S. Penske
Chairman
Penske Corporation

[GRAPHIC OMITTED]
[IMAGE OF C. L. POWELL]
Colin L. Powell
Chairman, America's Promise --
The Alliance for Youth
Former Chairman, U.S. Joint Chiefs of Staff

[GRAPHIC OMITTED]
[IMAGE OF G. R. ROCHE]
Gerard R. Roche
Chairman
Heidrick & Struggles, Inc.

[GRAPHIC OMITTED]
[IMAGE OF D. H. RUMSFELD]
Donald H. Rumsfeld
Chairman
Gilead Sciences, Inc.
Former U.S. Secretary of Defense

[GRAPHIC OMITTED]
[IMAGE OF G. P. SHULTZ]
George P. Shultz
Former U.S. Secretary of State

[GRAPHIC OMITTED]
[IMAGE OF R. S. STRAUSS]
Robert S. Strauss
Founder & Partner
Akin, Gump, Strauss, Hauer & Feld
Former U.S. Ambassador to Russia

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

BUSINESS

Gulfstream is recognized worldwide as a leading designer, developer, manufacturer and marketer of intercontinental business aircraft. The Company operates principally in three segments: New Aircraft, Aircraft Services and Pre-Owned Aircraft. Within New Aircraft, the Company's current product offerings are the Gulfstream IV-SP, the Gulfstream V, Gulfstream Shares (fractional ownership interest in Gulfstream IV-SPs and Gulfstream Vs), and Gulfstream Lease. Also, the Company's financial services subsidiary, Gulfstream Financial Services Corporation, through private label relationships with third-party aircraft financing providers, offers customized products to finance the worldwide sale of Gulfstream aircraft. Within its Aircraft Services segment, the Company offers aftermarket maintenance services, spare parts, and engine and auxiliary power unit service and overhaul for both Gulfstream and other business aircraft. The Company's Pre-Owned Aircraft segment markets and sells pre-owned Gulfstream aircraft and other business aircraft, acquired in trade, to a worldwide market.

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto beginning on page 26, which are included herein.

ACQUISITION OF K-C AVIATION

On August 19, 1998, the Company completed the acquisition of K-C Aviation, Inc. for approximately \$250 million, including acquisition costs. The acquisition is a key part of Gulfstream's growth strategy and has allowed the Company to obtain a skilled workforce, as well as add capacity to accelerate its aircraft completions business, diversify and grow its aircraft maintenance and parts business, and strongly establish the Gulfstream name in the aircraft engine service market.

K-C Aviation was a leading provider of business aviation services and the largest independent completion center for business aircraft in North America. In addition to custom aircraft interiors, K-C Aviation was the second largest independent aircraft engine service center in the United States and also offers maintenance services, spare parts, auxiliary power unit service, avionics retrofit, non-destructive testing and component overhaul.

The purchase of K-C Aviation was funded primarily from existing cash balances, and due to the timing of the closing of the transaction, also from the revolving credit facility. The acquisition has been accounted for as a purchase, and the purchase price exceeded the fair value of net assets acquired by approximately \$178 million. The discussion and analysis that follows reflects the combined results from the date of the acquisition.

RESULTS OF OPERATIONS

The following sets forth certain statistical data concerning the Company's deliveries, orders and financial contract backlog for new aircraft.

	1998	1997	1996
=====			
Units delivered during period:			
Gulfstream IV-SP	32	22	24
Gulfstream V	29	29	3
=====			
Total green deliveries	61	51	27
Units ordered during period:			
Gulfstream IV-SP	39	39	44
Gulfstream V	40	7	21
=====			
Total orders	79	46	65
Units in backlog at end of period:			
Gulfstream IV-SP (1)	50	43	27
Gulfstream V (2)	56	45	67
=====			
Total backlog (in units) (3)	106	88	94
Estimated backlog (in billions) (3)	\$ 3.3	\$ 2.8	\$ 3.1

-
- (1) Net of one cancellation in 1997, which relates to an order placed in that year.
 - (2) Net of one cancellation in 1996, which relates to an order placed in a prior year.
 - (3) Backlog and orders exclude 11 Middle East Shares contracts. See discussion of Financial Contract Backlog on page 24.

The Company recognizes revenue for the sale of a new "green" aircraft (i.e., before exterior painting and installation of customer-selected interiors and optional avionics) when that aircraft is delivered to the customer. Revenues from completion services are recorded when the outfitted aircraft is delivered to the customer. Revenues on all other products and services, including pre-owned aircraft, are recognized when such products are delivered or such services are performed. Generally, aircraft deliveries remain relatively smooth throughout a year. However, aircraft deliveries can vary significantly depending upon the timing of contract execution and final customer acceptance. Accordingly, the Company's revenues can vary significantly from quarter to quarter.

TOTAL COMPANY REVENUES AND GROSS MARGIN

In 1998, total Company revenues increased by \$524.5 million to \$2,428.0 million from \$1,903.5 million in 1997. In 1997, total Company revenues increased \$839.8 million from \$1,063.7 million in 1996. The increase in revenues is principally attributable to the increase in new aircraft

deliveries to 61 in 1998 from 51 in 1997 and 27 in 1996. The Company's 1998 results of operations include revenues of K-C Aviation from the date of acquisition, totaling \$84.9 million, a portion of which resulted from the delivery of eight non-Gulfstream completions. Cost of sales of the acquired business includes a non-cash acquisition-related charge of \$7.2 million for the fair value step-up related to the sale of inventories. Excluding pre-owned aircraft, which generally are sold at or near break-even levels, and the non-cash inventory step-up, the Company's gross margin percentage for 1998 was 23.6% compared to 20.0% for 1997 and 24.8% in 1996.

NET REVENUES

[GRAPHIC OMITTED]
[BAR GRAPH]

1996	\$1,063.7
1997	\$1,903.5
1998	\$2,428.0

The following table displays net revenues and segment gross margin for the Gulfstream Aerospace Corporation reportable segments for each of the three years in the period ended December 31, 1998, which correspond to the segment information presented in Note 15 to the consolidated financial statements.

NET REVENUES	1998	1997	1996
=====			
(Dollars in millions)			
New Aircraft	\$ 1,909.0	\$ 1,492.0	\$ 740.5
Aircraft Services	281.8	201.1	169.9
Pre-Owned Aircraft	237.2	210.4	153.3

Total Net Revenues	\$ 2,428.0	\$ 1,903.5	\$ 1,063.7
=====			

SEGMENT GROSS MARGIN	1998	1997	1996
=====			
(Dollars in millions)			
New Aircraft	\$ 464.3	\$ 297.5	\$ 193.9
Aircraft Services	53.7	45.0	36.5
Pre-Owned Aircraft	11.4	8.2	(1.7)

Segment Gross Margin	\$ 529.4	\$ 350.7	\$ 228.7
=====			

NEW AIRCRAFT

New Aircraft segment revenues have continued to grow over the last three years, reaching \$1,909.0 million in 1998, after increasing to \$1,492.0 million in 1997 from \$740.5 in 1996. This represents a 27.9% increase in 1998 over 1997 and a twofold increase in 1997 compared with 1996. The overall growth in New Aircraft revenues is primarily due to the increasing level of production to meet expanded product demand. See also "Financial Contract Backlog". In 1998, the New Aircraft segment delivered a total of 61 green aircraft, including both Gulfstream IV-SPs and Gulfstream Vs, compared to 51 in 1997 and 27 in 1996. The increase in 1998 over 1997 is driven by delivery of 10 additional Gulfstream IV-SP aircraft. The increase in 1997 over 1996 is driven by delivery of 26 additional Gulfstream V aircraft, which commenced delivery in December 1996.

The gross margins for New Aircraft were \$464.3 million, \$297.5 million, and \$193.9 million for 1998, 1997 and 1996, respectively. Gross margin percentage increased to 24.3% in 1998 from 19.9% in 1997 but declined from 26.2% in 1996. The increase in gross margin percentage in 1998 is primarily attributable to reductions in new aircraft production costs. The decline in gross margin percentage in 1997 is primarily attributable to the introduction of the Gulfstream V aircraft into production and the higher costs experienced in 1997 associated with the early stages of Gulfstream V production and completions.

AIRCRAFT SERVICES

Revenues for Aircraft Services increased 40.1% to \$281.8 million in 1998 from \$201.1 million in 1997. In 1997 Aircraft Services revenues increased 18.4% over 1996. Contributing to the revenue increase in 1998 was \$57.4 million of revenues resulting from the acquisition of K-C Aviation. The continuing growth in Aircraft Services revenue from 1996 to 1998 is directly related to the Company's success in significantly increasing market share.

Gross margin percentages for Aircraft Services were 19.1% in 1998, a

decrease from 22.4% in 1997, after increasing from 21.5% in 1996. The decrease in gross margins in 1998 from 1997 resulted principally from lower levels of gross margins realized on revenues from the acquired K-C Aviation business. The increase in 1997 compared with 1996 is primarily attributable to improved operating performance.

PRE-OWNED AIRCRAFT

Pre-Owned Aircraft revenues were \$237.2 million in 1998, \$210.4 million in 1997 and \$153.3 million in 1996. These increases represent 12.7% growth in 1998 over 1997 compared to a 37.2% increase from 1996 to 1997. This increase in revenue year over year is a function of the volume of units delivered and the mix of aircraft sold (i.e., Gulfstream IIs, IIIs, and IVs, etc.).

Gross margins for the Pre-Owned Aircraft segment can vary from year to year depending on the mix of aircraft sold and current market conditions. Generally, gross margins on pre-owned aircraft sales have been at or near break-even, with 1998 gross margins reflecting favorable market conditions.

Selling and Administrative Expense
% of Net Revenues

[GRAPHICS OMITTED]
[BAR GRAPH]

1996	9.3%
1997	5.1%
1998	5.0%

SELLING AND ADMINISTRATIVE EXPENSE. Selling and administrative expense increased by \$23.8 million, or 24.4%, to \$121.3 million in 1998 from \$97.5 million in 1997. Selling and administrative expense decreased \$2.0 million in 1997 from \$99.5 million in 1996. As a percentage of net revenues, selling and administrative expenses decreased slightly to 5.0% in 1998 from 5.1% in 1997 and 9.3% in 1996. Expenses were higher in 1998 due principally to increased levels of sales and marketing expenses and administrative costs associated with the acquisition of K-C Aviation. Expenses were higher in 1996 due principally to the level of advertising and marketing expense associated with the certification and initial customer deliveries of the Gulfstream V.

STOCK OPTION COMPENSATION EXPENSE. Non-cash compensation charges related to stock options were \$6.9 million in 1998, \$1.6 million in 1997 and \$7.2 million in 1996. The 1998 expense includes \$5.8 million related to modification of certain prior grants in connection with the retirement of a senior executive during the fourth quarter.

RESEARCH AND DEVELOPMENT EXPENSE. Research and development expense was \$10.0 million in 1998, relatively unchanged from the \$10.8 million incurred in 1997, and significantly below the \$58.1 million incurred in 1996. Research and development expense decreased during 1998 and 1997 from 1996 principally as a result of the substantial completion of the Gulfstream V development program. Research and development expense for 1997 and 1996 are net of credits of \$10.0 million and \$8.0 million, respectively, for launch assistance funds received from suppliers participating in the development of the Gulfstream V. Research and development expenditures in 1999 and the near-term future are expected to stem principally from product improvements and enhancements, rather than new aircraft development.

AMORTIZATION OF INTANGIBLES AND DEFERRED CHARGES. This non-cash expense includes amortization of goodwill and other intangible assets consisting of aftermarket service and aftermarket product support, as well as deferred financing charges related to the Company's pre-existing and new bank credit facilities. Amortization of intangibles and deferred charges were \$9.3 million for 1998, \$7.3 million in 1997 and \$9.4 million in 1996. The increase in 1998 was a result of additional goodwill amortization directly attributable to the acquisition of K-C Aviation. The decrease in 1997 from 1996 was a result of the accelerated amortization in 1996 of financing charges associated with the Company's prior bank credit facilities, which were repaid in October 1996. Amortization will increase in 1999 as a result of a full year of amortization attributable to the acquisition.

INTEREST INCOME AND EXPENSE. Interest income decreased by \$4.2 million to \$7.3 million in 1998 from \$11.5 million in 1997. Interest income decreased \$3.1 million in 1997 from \$14.6 million in 1996. The decrease in both periods was a result of lower average cash balances the Company had invested compared to the previous year. For 1998, this was principally as a result of cash used for the Company's 1998 share repurchase program and the acquisition of K-C Aviation. Interest expense consists almost entirely of interest paid on long-term borrowings under the Company's bank credit facilities. Interest expense decreased to \$28.0 million for 1998 from \$31.2 million in 1997. Interest expense increased \$13.3 million from \$17.9

million in 1996. This decrease in 1998 was due to a decrease in average borrowings, as well as lower average borrowing costs of 7.3% in 1998 versus 7.7% in 1997. The increase in 1997 from 1996 was due principally to an increase in average borrowings. See "Liquidity and Capital Resources".

INCOME TAXES. The Company recorded income tax expense of \$126.7 million for 1998, based on an annual effective tax rate of 36.0% as compared to an income tax benefit of \$33.9 million in 1997. No provision for income taxes was recorded in 1996, principally due to the utilization of net operating loss carryforwards. The Company, in estimating its ability to realize the benefit of its net deferred tax assets, considers both positive and negative evidence and gives greater weight to evidence that is objectively verifiable. As a result of numerous factors including, but not limited to, recent earnings trends and the size of its financial contract backlog, the Company currently believes that its net deferred tax asset is more likely than not to be realized. In the third quarter of 1997, the Company released its deferred tax valuation allowance, totaling \$94.2 million. Of this amount, \$29.4 million related to the exercise of stock options and was credited to additional paid-in capital and \$64.8 million was recorded as a one-time non-cash income tax benefit. During the fourth quarter of 1997, the Company recorded a provision for income taxes based on its overall estimated effective tax rate of 37.5%. The Company's net operating loss carryforward for regular federal income tax purposes at December 31, 1997 was approximately \$65.0 million, which was fully utilized during 1998.

EARNINGS PER SHARE. The Company reported diluted earnings per share of \$3.00 for 1998 compared to diluted earnings per share of \$3.12 for 1997 and diluted earnings per share of \$0.60 in 1996. On a pro forma basis, assuming an effective tax rate of 37.5%, the Company's diluted earnings per share would have been \$1.68 and \$0.37 for 1997 and 1996, respectively.

Pro Forma (Fully Taxed)
Earnings per Share

[GRAPHICS OMITTED]
[BAR GRAPH]

1996	\$0.37
1997	\$1.68
1998	\$3.00

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity needs arise principally from working capital requirements, capital expenditures, principal and interest payments on long-term debt (including the revolving credit facility), and the Company's share repurchase program described below. During 1998, the Company also acquired K-C Aviation. During 1998 and 1997, the Company relied on its available cash balances and, in 1998, its revolving credit facility to fund these needs.

The Company had cash and cash equivalents totaling \$38.1 million at December 31, 1998, down from \$306.5 million at December 31, 1997. This decrease is attributable to the acquisition of K-C Aviation during the third quarter of 1998 and the Company's share repurchase program.

In January 1998, the Company established a program to repurchase up to \$200 million of its common stock. As of December 31, 1998, approximately 5.5 million shares, at an average price of \$35.81 per share, had been repurchased under this plan for an aggregate amount of approximately \$198.5 million.

On March 1, 1999, the Company established a program to repurchase up to an additional \$200 million of its common stock. The purchases will be made from time to time in the open market or through negotiated transactions as market conditions warrant.

Net cash generated by operating activities was \$194.7 million, \$120.4 million and \$243.4 million in 1998, 1997, and 1996, respectively. The increase in 1998 from 1997 was primarily due to the increase in income before income taxes. The reduction in 1997 from 1996 was primarily due to the decrease in customer progress payments associated with new aircraft in backlog.

During the third quarter of 1998, the Company, together with GATX Capital Corporation, a diversified international financial services company, formed Gulfstream GATX Leasing Company to provide an operating lease program to customers in the large cabin, long range business aircraft market. Gulfstream GATX Leasing Company is owned 85% by GATX Capital and 15% by Gulfstream.

During the year ended December 31, 1998, additions to property and equipment amounted to \$27.0 million. Additions to property and equipment were \$26.7 million in 1997 and \$16.2 million in 1996. Additions in 1998

include approximately \$2.0 million of property and equipment acquired to upgrade existing equipment at the newly acquired locations. As a result of both continued production level increases and the acquisition of K-C Aviation, the Company plans to spend approximately \$30.0 million for property and equipment in 1999. The increased level of spending of \$10.5 million in 1997 over 1996 primarily related to the Company's strategic initiative to increase its annual production rate to 65 aircraft by 1999, a twofold increase over its 1996 annual production rate. At December 31, 1998, the Company was not committed to the purchase of any significant amount of property and equipment. The Company continually monitors its capital spending in relation to current and anticipated business needs. As circumstances dictate, facilities are added, consolidated, or modernized.

In May 1998, certain stockholders of the Company completed the sale of 18 million shares of common stock in a secondary offering (the "Secondary"). The Company did not receive any of the proceeds from the sale of shares in the Secondary. In connection with the Secondary, certain current and former directors and employees of, and advisors to, the Company exercised stock options to purchase, in the aggregate, approximately 2.9 million shares of common stock from the Company for an aggregate exercise price of approximately \$27.4 million, after deducting issuance costs. The Company used the proceeds from these exercises for working capital purposes.

On October 16, 1996, Gulfstream Delaware Corporation, a wholly owned subsidiary of the Company, entered into a \$650 million credit facility (the "Credit Agreement"). The Credit Agreement consists of a \$400 million term loan facility and a \$250 million revolving credit facility. A portion of the revolving credit facility, in an amount not to exceed \$150 million, may be used (to the extent available) for standby and commercial letters of credit, and up to \$200 million of the revolving credit facility will be available to the Company for borrowings. In addition, up to \$20 million of the revolving credit facility may be used for swing line loans. The revolving credit facility expires September 30, 2002 with any amounts outstanding due on that date. While the Company utilized the revolving credit facility during 1998, there were no amounts outstanding under the revolving credit facility on December 31, 1998. The Credit Agreement contains customary affirmative and negative covenants including restrictions on the ability of the Company and its subsidiaries to pay cash dividends, as well as financial covenants, under which the Company must operate. As of December 31, 1998, the Company was in compliance with the covenants contained in the Credit Agreement, but was prohibited from paying dividends. Payments under the term loan facility were \$75.0 million in 1998, and scheduled repayments are \$75.0 million in each of the years 1999 through 2001 and \$80.0 million in 2002.

On November 30, 1998, the Company issued notes totaling \$56 million secured by three pre-owned aircraft used as core fleet in the Gulfstream Shares Program. The notes underlying the agreement have substantially identical terms and are repayable in consecutive monthly installments of principal commencing December 31, 1999, with a final maturity on November 30, 2008; aggregate principal payments for each of the following years are as follows: 1999 -- \$0.3 million; 2000 through 2007 -- \$3.1 million; 2008 -- \$30.6 million.

The Company's principal source of liquidity both on a short- and long-term basis is cash flow provided from operations, including customer progress payments and deposits on new aircraft orders. However, the Company may borrow against the Credit Agreement or through other available borrowing vehicles to supplement cash flow from operations. The Company believes, based upon its analysis of its consolidated financial position, its cash flow during the past 12 months and its expected results of operations in the future, that operating cash flow and available borrowings under the Credit Agreement and other available borrowing vehicles will be adequate to fund operations, capital expenditures, debt service, and the Company's share repurchase program for at least the next 12 months. The Company intends to repay its remaining indebtedness primarily with cash flow from operations. There can be no assurance, however, that future industry-specific developments or general economic trends will not adversely affect the Company's operations or its ability to meet its cash requirements.

As of December 31, 1998, in connection with orders for 21 Gulfstream V aircraft in the backlog, the Company has offered customers trade-in options (which may or may not be exercised by the customer) under which the Company will accept trade-in aircraft (primarily Gulfstream IVs and IV-SPs) at a guaranteed minimum trade-in price. Additionally, in connection with recorded sales of new aircraft, at December 31, 1998, the Company has agreed to accept pre-owned aircraft totaling \$209.9 million. Management believes that the fair market value of all such aircraft exceeds the specified trade-in value.

The Company is party to an agreement with the Pension Benefit Guaranty Corporation (the "PBG") concerning funding of the Company's defined benefit pension plans. Pursuant to this agreement, the Company contributed

\$25.0 million during 1998 and has agreed to contribute a total of \$25.0 million annually (to be paid quarterly in equal installments) for 1999 and 2000 to its pension plans, which payments are expected to result in such plans being fully funded. The payments to be made under this agreement were already part of the Company's overall financial planning, and therefore, are not expected to have a material adverse effect on the Company's financial statements. The funding required under this agreement will not result in any increase in the Company's annual pension expense.

The Company is currently engaged in the monitoring and cleanup of certain groundwater at its Savannah facility under the oversight of the Georgia Department of Natural Resources. Expenses incurred for cleanup have not been significant. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. The Company believes the remainder of the Savannah facility, as well as other Gulfstream properties, are being carefully monitored and are in substantial compliance with current federal, state and local environmental regulations. The Company believes the liabilities, if any, that will result from the above environmental matters will not have a material adverse effect on its financial statements.

The Company is involved in tax audits by the Internal Revenue Service covering the years 1990 through 1994. The revenue agent's reports include several proposed adjustments involving the deductibility of certain compensation expense, items relating to the initial capitalization of the Company, the allocation of the original purchase price for the acquisition by the Company of the Gulfstream business, including the treatment of advance payments with respect to and the cost of aircraft that were in backlog at the time of the acquisition, and the amortization of amounts allocated to intangible assets. The Company believes that the ultimate resolution of these issues will not have a material adverse effect on its financial statements because the financial statements already reflect what the Company currently believes is the expected loss of benefit arising from the resolution of these issues.

FINANCIAL CONTRACT BACKLOG

At December 31, 1998, the Company had a financial contract backlog of approximately \$3.3 billion, representing a total of 50 contracts for Gulfstream IV-SPs, and 56 contracts for Gulfstream Vs, compared with \$2.8 billion at the end of 1997, representing a total of 43 contracts for Gulfstream IV-SPs and 45 contracts for Gulfstream Vs. Including the 11 undelivered aircraft in the Middle East Shares contract, which have been excluded from the Company's financial contract backlog, the Company had a total of 117 aircraft, valued at approximately \$3.6 billion of potential future revenues, under contract at December 31, 1998. This excludes 18 options valued at \$0.7 billion. The increase in backlog from 1997 is driven by the high demand for the Company's products.

During the third quarter of 1998, Gulfstream GATX Leasing Company executed agreements to purchase five Gulfstream Vs and one Gulfstream IV-SP, valued at approximately \$210 million, with deliveries from 1999 through 2001. It also executed options to purchase three Gulfstream Vs and three Gulfstream IV-SPs, valued at approximately \$200 million, with potential deliveries from 2001 through 2004.

During the first quarter of 1998, the Company signed a \$335 million contract for 12 Gulfstream IV-SPs to expand its highly successful Gulfstream Shares fractional ownership program to the Middle East region. The first green aircraft delivery for the Middle East Shares Program occurred during the third quarter of 1998. The remaining 11 undelivered aircraft are not included in the Company's financial contract backlog. In 1993, the Company established very stringent deposit requirements for recording aircraft into its backlog. The contract for the Middle East Shares expansion includes modestly different deposit requirements early in the program. The Company has decided for the initial phase of the program to record these orders into backlog when the aircraft are delivered.

As of December 31, 1998, the Company had contracted to deliver to Executive Jet 44 Gulfstream IV-SPs and 12 Gulfstream Vs in connection with North American Gulfstream Shares program plus options for additional 12 Gulfstream Vs. Of these, 18 Gulfstream IV-SPs are in service, with the remaining 50 Gulfstream IV-SPs and Gulfstream Vs to be delivered through 2007.

The Company includes an order in financial contract backlog only if the Company has entered into a purchase contract (with no contingencies) with the customer and has received a significant (generally non-refundable) deposit from the customer. In total, approximately 50% of the Company's contractual backlog is scheduled for delivery beyond 1999.

Financial Contract Backlog

[GRAPHICS OMITTED]

[BAR GRAPH]

1996	\$3,104.0
1997	\$2,782.1
1998	\$3,301.9

The Company continually monitors the condition of its backlog and believes, based on the nature of its customers and its historical experience, that there will not be a significant number of cancellations. However, to the extent that there is a lengthy period of time between a customer's aircraft order and its expected delivery date, there may be increased uncertainty as to changes in business and economic conditions which may affect customer cancellations.

FOREIGN EXCHANGE

The Company does not have any significant assets located outside the United States. All the Company's sales and contracts have historically been and currently are denominated in U.S. dollars and, as a result, are not subject to changes in exchange rates. In addition, substantially all of the Company's material purchases are currently denominated in U.S. dollars.

INFLATION

The Company continually attempts to minimize any effect of inflation on earnings by controlling its operating costs and selling prices. During the past few years, the rate of inflation has been low and has not had a significant impact on the results of the Company's operations.

A portion of the Company's Gulfstream V contracts contain an adjustment in the purchase price to account for inflation. Such adjustments are generally capped at an aggregate of 3% per year. These adjustments are intended to minimize the Company's cost risk associated with the small portion of material contracts which are not under long-term agreements.

YEAR 2000 READINESS

As part of the Company's initiatives, begun in 1996, to increase production rates and coproduce the Gulfstream IV-SP and Gulfstream V, the Company has, and continues to, upgrade and replace business systems and facility infrastructure. These initiatives help to reduce the potential impact of the Year 2000 issue on the Company's operations.

In addition, the Company has implemented a Year 2000 Compliance Plan designed to ensure that all other hardware, software, systems, and products with microprocessors relevant to the Company's business are not adversely affected by the Year 2000 issue. The Company has established a formal program office under the leadership of a senior level executive to manage the assessment and implementation of the Plan objectives. The program is reviewed regularly with executive management.

Gulfstream has reviewed all current production components and systems installed in the Gulfstream IV-SP and Gulfstream V aircraft and has found no issues. Older aircraft which are no longer under warranty have also been reviewed and some require minor component modifications. This information has been made available to Gulfstream operators. Gulfstream intends to substantially complete Year 2000 compliance remediation and testing by the first quarter 1999, with some activities continuing through the remainder of 1999. Gulfstream has completed approximately 85% of its Year 2000 program plan for products and infrastructure. Confirmation of Year 2000 plans for all significant suppliers has also been completed. Supplier Year 2000 compliance monitoring will continue through year-end 1999 and into the year 2000.

The Company currently estimates the total costs of these efforts incurred during the years 1997 through 1999 to be approximately \$3.5 million. In addition, some non-compliant systems will be eliminated as the company installs Year 2000 compliant software in connection with its ongoing integrated resource planning project. The cost of this effort has been included in the company's capital projections discussed above under the caption "Liquidity and Capital Resources".

The Company does not believe that the implementation of this Year 2000 Compliance Plan will have a material effect on the Company's business operations, financial condition, liquidity or capital resources. Management of the Company believes it has an effective program in place to address the Year 2000 issue in a timely manner. As a component of the Year 2000 Compliance Plan, the Company is developing contingency plans to mitigate the effects of potential problems experienced by it or its key suppliers or governmental agencies in the timely implementation of its Year 2000 Compliance Plan. Nevertheless, since it is not possible to anticipate all future outcomes, especially when third parties are involved, there could be circumstances in which the Company's operations would be adversely affected.

The statements in this section constitute a "Year 2000 Readiness Disclosure" under the Year 2000 Information and Readiness Disclosure Act to the extent provided therein.

OUTLOOK

Based on its strong backlog and continued product demand, Gulfstream plans to increase production to 65 new aircraft in 1999. With this increased production and continuing margin improvements, the Company expects 1999 diluted earnings per share of \$3.75, a 25% increase over 1998. The Company also expects diluted EPS in 2000 to increase by at least 15%.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

Certain statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," including the statements under the heading "Outlook," as well as other statements elsewhere in this Annual Report to Stockholders, contain forward-looking information. These forward-looking statements are subject to risks and uncertainties. Actual results might differ materially from those projected in the forward-looking statements. Additional information concerning factors that could cause actual results to materially differ from those in the forward-looking statements is contained in Exhibit 99 to the Company's Securities and Exchange Commission filings.

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	1998	1997	1996
(In thousands, except per share amounts)			
Net revenues	\$ 2,427,958	\$ 1,903,494	\$ 1,063,713
Cost and expenses			
Cost of sales	1,907,749	1,557,520	839,254
Selling and administrative	121,294	97,499	99,452
Stock option compensation expense	6,908	1,640	7,186
Research and development	10,030	10,792	58,118
Amortization of intangibles and deferred charges	9,285	7,347	9,434
Total costs and expenses	2,055,266	1,674,798	1,013,444
Income from operations	372,692	228,696	50,269
Interest income	7,280	11,532	14,605
Interest expense	(27,959)	(31,159)	(17,909)
Income before income taxes	352,013	209,069	46,965
Income tax expense (benefit)	126,725	(33,942)	---
Net income	\$ 225,288	\$ 243,011	\$ 46,965
Earnings per share:			
Basic	\$ 3.08	\$ 3.28	\$.64
Diluted	\$ 3.00	\$ 3.12	\$.60

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	1998	1997
(In thousands, except for share amounts)		
ASSETS		
Cash and cash equivalents	\$ 38,149	\$ 306,451
Accounts receivable (less allowance for doubtful accounts: \$2,525 and \$1,144)	263,959	177,228
Inventories	729,874	629,876
Deferred income taxes	17,132	33,795
Prepays and other assets	6,494	11,318
Total current assets	1,055,608	1,158,668
Property and equipment, net	166,777	134,611
Tooling, net of accumulated amortization: \$15,220 and \$7,680	36,415	43,471
Goodwill, net of accumulated amortization: \$11,268 and \$8,433	213,906	38,957
Other intangible assets, net	45,414	50,485
Deferred income taxes	22,011	32,950

Other assets and deferred charges	74,003	14,525
Total Assets	\$1,614,134	\$1,473,667
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$ 75,262	\$ 75,000
Accounts payable	182,040	147,618
Accrued liabilities	170,681	93,798
Customer deposits	488,218	546,441

Total current liabilities	916,201	862,857
Long-term debt	285,738	305,000
Accrued postretirement benefit cost	115,154	115,405
Customer deposits -- long-term	94,445	88,075
Other long-term liabilities	6,916	9,573

Stockholders' equity		
Common stock, \$.01 par value; 300,000,000 shares authorized; shares issued: 89,818,774 and 86,522,089	898	865
Additional paid-in capital	444,301	370,258
Accumulated deficit	(672)	(225,960)
Accumulated other comprehensive income	(2,441)	(762)
Unamortized stock plan expense	(52)	(1,155)
Less: Treasury stock: 17,244,581 and 11,978,439 shares	(246,354)	(50,489)

Total stockholders' equity	195,680	92,757

Total Liabilities and Stockholders' Equity	\$1,614,134	\$1,473,667
=====		

See Notes to Consolidated Financial Statements.

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Compre- hensive Income	Unamortized Stock Plan Expense	Treasury Stock	Total Stock- holders' Equity
(In thousands)	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
BALANCE AS OF JANUARY 1, 1996	\$468,938	\$523	\$210,631	\$ (410,613)	\$ (1,450)	\$---	\$ (50,489)	\$217,540
Net income for fiscal 1996				46,965				46,965
Minimum pension liability adjustment					(14)			(14)
Total comprehensive income								46,951
Repurchase of preferred stock	(468,938)							(468,938)
Dividends paid on preferred stock				(105,323)				(105,323)
Issuance of compensatory common stock options			9,618			(9,618)		---
Amortization of stock plan expense						7,186		7,186
Conversion of common stock		(8)	8					---
Stock Split of 1.5 for 1		258	(258)					---
Common stock offering, net of expenses		46	99,557					99,603
Exercise of common stock options		40	14,130					14,170

BALANCE AS OF DECEMBER 31, 1996	---	859	333,686	(468,971)	(1,464)	(2,432)	(50,489)	(188,811)
Net income for fiscal 1997				243,011				243,011
Minimum pension liability adjustment					702			702
Total comprehensive income								243,713

Issuance of compensatory common stock options			363			(363)		---
Amortization of stock plan expense						1,640		1,640
Tax benefit of exercised common stock options			33,682					33,682
Exercise of common stock options		6	2,527					2,533

BALANCE AS OF DECEMBER 31, 1997	---	865	370,258	(225,960)	(762)	(1,155)	(50,489)	92,757
Net income for fiscal 1998				225,288				225,288
Minimum pension liability adjustment, net of tax of \$1,464					(1,679)			(1,679)
Total comprehensive income								223,609

Modification of common stock options		5,805						5,805
Amortization of stock plan expense					1,103			1,103
Exercise of common stock options								
with the offering, net of expenses	26	25,331				2,044		27,401
Tax benefit of exercised								
common stock options		39,551						39,551
Exercise of common stock options	7	3,356				558		3,921
Purchase of treasury stock						(198,467)		(198,467)

BALANCE AS OF DECEMBER 31, 1998	\$ ---	\$898	\$444,301	\$ (672)	\$ (2,441)	\$ (52)	\$ (246,354)	\$195,680
=====								

See Notes to Consolidated Financial Statements.
</TABLE>

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,		
	1998	1997	1996

(In thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	\$ 225,288	\$ 243,011	\$ 46,965
Adjustments to reconcile net income to net cash provided by operating activities:			
Acquisition related non-cash items	7,195	---	---
Depreciation and amortization	34,851	33,022	26,910
Postretirement benefit cost	7,438	6,700	6,684
Non-cash stock option compensation expense	6,908	1,640	7,186
Provision for loss (recovery) on pre-owned aircraft	---	(1,600)	1,000
Deferred income taxes	62,803	(37,867)	---
Other, net	(243)	1,428	417
Change in assets and liabilities, net of acquired assets and liabilities:			
Accounts receivable	(47,210)	(39,978)	(55,029)
Inventories	(55,370)	26,961	(263,112)
Prepays, other assets and deferred charges	(53,498)	(5,080)	(5,578)
Accounts payable and accrued liabilities	96,439	763	102,551
Customer deposits	(72,940)	(109,443)	432,365
Other long-term liabilities	(16,957)	864	(56,956)

Net Cash Provided by Operating Activities	194,704	120,421	243,403
=====			
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for business acquired	(248,887)	---	---
Investment in unconsolidated affiliate	(1,260)	---	---
Expenditures for property and equipment	(26,955)	(26,692)	(16,167)
Expenditures for tooling	(594)	(2,984)	(2,085)
Proceeds from sales of assets	835	1	28

Net Cash Used in Investing Activities	(276,861)	(29,675)	(18,224)
=====			
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of common stock	---	---	99,603
Proceeds from exercise of common stock options	31,322	2,533	14,170
Repurchase of preferred stock	---	---	(468,938)
Dividends paid on preferred stock	---	---	(105,323)
Proceeds from issuance of long-term debt	56,000	---	400,000
Principal payments on long-term debt	(75,000)	(20,000)	(146,331)
Payment of financing costs	---	---	(8,500)
Purchase of treasury stock	(198,467)	---	---

Net Cash Used in Financing Activities	(186,145)	(17,467)	(215,319)

CASH AND CASH EQUIVALENTS			
Net increase (decrease) during the year	(268,302)	73,279	9,860
Cash and cash equivalents, beginning of year	306,451	233,172	223,312

Cash and Cash Equivalents, End of Year	\$ 38,149	\$ 306,451	\$ 233,172
=====			

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

BUSINESS

Gulfstream is primarily engaged in the design, development, production and sale of large business jet aircraft. The Company is also engaged in a number of related businesses, including: product support and services for customer-owned aircraft, which include maintenance services and replacement parts for both Gulfstream and non-Gulfstream aircraft; engine and auxiliary power unit service and overhaul; and the sale of pre-owned aircraft. The majority of the Company's aircraft are sold to domestic and multinational corporations and domestic and foreign governments.

BASIS OF CONSOLIDATION AND USE OF ESTIMATES

The consolidated financial statements include the accounts of the Company and majority-owned subsidiaries, all of which are wholly owned. Material intercompany balances and transactions have been eliminated in consolidation. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make assumptions and estimates that directly affect the amounts reported in the consolidated financial statements. Significant estimates for which changes in the near term are considered reasonably possible and that may have a material effect on the financial statements are addressed in these notes to the consolidated financial statements.

REVENUE RECOGNITION

Contracts for new aircraft are segmented between the manufacture of the "green" aircraft (i.e., before exterior painting and installation of customer-selected interiors and optional avionics) and its completion. Sales of new Gulfstream green aircraft are recorded as deliveries are made to the customer prior to the aircraft entering the completion process. With respect to completed aircraft, any costs related to parts to be installed and services to be performed under the contract, after the delivery of the aircraft, which are not significant, are included as cost of sales at the time of the sale of the new aircraft. Sales of all other products and services, including pre-owned aircraft, are recognized when delivered or the service is performed.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid financial instruments which have maturities of less than three months. The Company places its temporary cash investments with high credit quality financial institutions.

INVENTORIES

Inventories of work in process and finished goods for aircraft are stated at the lower of cost (based on estimated average unit costs of the number of units in a production lot) or market. Raw materials, material components of other work in process and substantially all purchased parts inventories are stated at the lower of cost (first-in, first-out method) or market. Pre-owned aircraft acquired in connection with the sale of new aircraft are recorded at the lower of the trade-in value or estimated net realizable value.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost and depreciated by the straight-line method over their estimated useful lives ranging from 15 to 40 years for buildings and improvements and four to 20 years for all other property and equipment. The cost of maintenance and repairs is charged to operations as incurred; significant renewals and betterments are capitalized.

TOOLING

Tooling is stated at cost and represents primarily production tooling relating to the Gulfstream V aircraft program. Tooling associated with the Gulfstream V is amortized to cost of sales on a unit basis over the first 200 units of the Gulfstream V program.

INTANGIBLES AND OTHER ASSETS

Goodwill, including goodwill arising from the 1998 acquisition of K-C Aviation, is being amortized using the straight-line method over 40 years. Other intangible assets consisting of aftermarket service and product support (i.e., customer lists) are being amortized on a straight-line basis over the expected useful lives which range from 10 to 21 years. The costs of obtaining bank financing have been included in other assets and deferred charges and are being amortized over the lives of the related bank borrowings.

RESEARCH AND DEVELOPMENT

Research and development expenses are charged directly to operations as incurred.

PRODUCT WARRANTIES

Product warranty expense is recorded as aircraft are delivered based upon the estimated aggregate future warranty costs relating to the aircraft.

CUSTOMER DEPOSITS

Substantially all customer deposits represent advance payments for new aircraft purchases. The deposits on aircraft that are expected to be delivered in the following year are classified as current in the accompanying consolidated balance sheets.

CONCENTRATIONS OF CREDIT

Financial instruments which may potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments and trade and contract receivables. Approximately 14.0% and 32.0%, respectively, of accounts receivable outstanding at December 31, 1998 and 1997 are represented by a contract receivable associated with the sale of multiple aircraft to one customer. Generally, contract receivables are satisfied prior to delivery of the outfitted aircraft. In the normal course of business the Company performs ongoing credit evaluations of its customers' financial position, and for trade receivables, generally requires no collateral from its customers. Overall, credit risks with respect to trade receivables are limited due to the Company's large number of customers and their dispersion across many industries and geographic regions.

INCOME TAXES

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and the amounts recognized for tax purposes as well as tax credit carryforwards and loss carryforwards. These deferred income taxes are measured by applying enacted tax rates in the years in which the differences are expected to reverse. A valuation allowance reduces deferred tax assets when it is "more likely than not" that some portion or all of the deferred tax assets will not be realized.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities reflected in the financial statements approximates fair value because of the short-term nature of these instruments. Based on the borrowing rates currently available to the Company for bank loans with similar terms and maturities, the Company estimates that the carrying value of its long-term debt approximates fair value.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically assesses the recoverability of assets based on its expectations of future profitability and undiscounted cash flow of the related operations and, when circumstances dictate, adjusts the carrying value of the asset. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of goodwill, other purchased intangibles, and property and equipment.

NOTE 2 BUSINESS ACQUISITION

On August 19, 1998, the Company completed the acquisition of K-C Aviation, Inc. for approximately \$250 million, including acquisition costs. K-C Aviation was a leading provider of business aviation services and the largest independent completion center for business aircraft in North America. In addition to custom aircraft interiors, K-C Aviation was the second largest independent aircraft engine service center in the United States and offered maintenance services, spare parts, auxiliary power unit service, avionics retrofit, non-destructive testing and component overhaul.

The purchase of K-C Aviation was funded primarily from existing cash balances, and due to the timing of the closing of the transaction, also from the revolving credit facility.

The acquisition has been accounted for as a purchase, and accordingly, the operating results of K-C Aviation have been included in the Company's consolidated financial statements since the date of acquisition. The purchase price exceeded the fair value of net assets acquired by approximately \$178 million. In connection with the acquisition, the Company assumed \$51.2 million in liabilities.

The following unaudited pro forma summary presents the combined results of operations of the Company and K-C Aviation, as if the acquisition had occurred at the beginning of fiscal 1998 and 1997. The pro forma amounts give effect to certain adjustments, including the amortization of goodwill and inventory step-up, reduced interest income from cash utilized to complete the acquisition and the related income tax effects.

The pro forma consolidated results are not indicative of results that would have occurred had the acquisition been in effect for the periods presented, nor are they indicative of the results that are expected in the future.

Year ended December 31,	1998	1997

(In millions, except per share amounts)		
Pro forma net revenues	\$ 2,551.2	\$ 2,090.6
Pro forma income before income taxes	346.2	198.5
Pro forma net income	221.6	236.4
Pro forma earnings per share:		
Basic	\$ 3.03	\$ 3.19
Diluted	2.95	3.03

NOTE 3 INVENTORIES

Inventories consisted of the following at:

December 31,	1998	1997

(In thousands)		
Work in process	\$ 359,212	\$ 330,155
Raw materials	190,890	134,973
Vendor progress payments	85,605	60,606
Pre-owned aircraft	94,167	104,142
	-----	-----
	\$ 729,874	\$ 629,876
	=====	=====

NOTE 4 PROPERTY AND EQUIPMENT

The major categories of property and equipment consisted of the following at:

December 31,	1998	1997

(In thousands)		
Land	\$ 4,409	\$ 4,109
Buildings and improvements	126,580	101,836
Machinery and equipment	150,797	130,491
Construction in progress	8,385	9,074
	-----	-----
Total	290,171	245,510
Less accumulated depreciation	(123,394)	(110,899)
	-----	-----
	\$ 166,777	\$ 134,611
	=====	=====

NOTE 5 OTHER INTANGIBLE ASSETS

Other intangible assets are comprised of the following at:

December 31,	1998	1997

(In thousands)		
Aftermarket - Service Center	\$ 15,000	\$ 15,000
Aftermarket - Product Support	75,000	75,000
	-----	-----
Total	90,000	90,000
Less accumulated amortization	(44,586)	(39,515)
	-----	-----
	\$ 45,414	\$ 50,485
	=====	=====

NOTE 6 INCOME TAXES

The components of income tax expense (benefit) consisted of the following:

Year ended December 31,	1998	1997

(In thousands)		
Current	\$ 63,922	\$ 3,925
Deferred	62,803	26,934

Decrease in valuation allowance	---	(64,801)
Income tax expense (benefit)	\$ 126,725	\$ (33,942)

Although the Company recorded net income during 1996, no provision for income taxes was recorded, principally as a result of utilization of net operating loss carryforwards. The Company made income tax payments of \$4.4 million, \$4.8 million and \$0.3 million for 1998, 1997 and 1996, respectively. The Company's provision for income taxes differed from the amount computed by applying the U.S. federal income tax rate as follows:

Year ended December 31,	1998	1997
(In thousands)		
Statutory federal tax rate	\$ 123,205	\$ 73,174
Foreign Sales Corporation tax benefit	(5,614)	(1,888)
State income tax provision	9,056	1,605
Decrease in valuation allowance	---	(64,801)
Net operating loss carryforwards	---	(43,613)
Other provision adjustments	78	1,581
Income tax expense (benefit)	\$ 126,725	\$ (33,942)

The tax effects of significant components of the Company's deferred tax assets and liabilities are as follows:

December 31,	1998	1997
(In thousands)		
DEFERRED TAX ASSETS RELATED TO:		
Postretirement benefits	\$ 43,183	\$ 43,386
Tax credit carryforwards	16,049	7,037
Warranty reserves	12,569	9,199
Net operating loss carryforwards	---	24,500
Intangible assets	---	7,031
Other	7,567	9,114
	79,368	100,267
DEFERRED TAX LIABILITIES RELATED TO:		
Property and equipment, principally due to basis difference	(14,826)	(17,392)
Inventory	(11,295)	(9,147)
Pension and other employee benefits	(7,648)	(6,236)
Intangible assets	(2,053)	---
Other	(4,403)	(747)
	(40,225)	(33,522)
Net deferred tax assets	\$ 39,143	\$ 66,745

At December 31, 1998, the Company had available tax credit carryforwards for regular federal income tax purposes of approximately \$6.3 million which will expire beginning in 2009.

During the third quarter ended September 30, 1997, as a result of numerous factors, including, but not limited to the Company's earnings trends and the size of its financial contract backlog, the Company determined that its net deferred tax asset is more likely than not to be realized, and released its deferred tax valuation allowance, totaling \$94.2 million. Of this amount, \$29.4 million related to the exercise of stock options was credited to additional paid-in capital and the remainder, \$64.8 million, was recorded as a one-time, non-cash income tax benefit.

The Company is involved in tax audits by the Internal Revenue Service covering the years 1990 through 1994. The revenue agent's reports include several proposed adjustments involving the deductibility of certain compensation expense, items relating to the initial capitalization of the Company, the allocation of the original purchase price for the acquisition by the Company of the Gulfstream business, including the treatment of advance payments with respect to the cost of aircraft that were in backlog at the time of the acquisition, and the amortization of amounts allocated to intangible assets. The Company believes that the ultimate resolution of these issues will not have a material adverse effect on its financial statements because the financial statements already reflect what the Company currently believes is the expected loss of benefit arising from the resolution of these issues.

NOTE 7 ACCRUED LIABILITIES

Accrued liabilities are comprised of the following at:

December 31,	1998	1997

(In thousands)		
Income taxes	\$ 51,615	\$ ---
Employee compensation and benefits	36,954	33,245
Accrued warranty	32,017	23,844
Uncompleted work on delivered aircraft	20,798	11,098
Other	29,297	25,611
	-----	-----
	\$ 170,681	\$ 93,798
	=====	=====

NOTE 8 LONG-TERM DEBT

Long-term debt consisted of the following at:

December 31,	1998	1997

(In thousands)		
Notes payable	\$ 56,000	\$ ---
Term loans	305,000	380,000
	-----	-----
	361,000	380,000
Less current portion	(75,262)	(75,000)
	-----	-----
	\$ 285,738	\$ 305,000
	=====	=====

On November 30, 1998, the Company issued notes totaling \$56 million secured by three pre-owned aircraft used as core fleet in the Gulfstream Shares Program. The notes underlying the agreement have substantially

identical terms and are repayable in consecutive monthly installments of principal commencing December 31, 1999 with a final maturity on November 30, 2008; aggregate principal payments for each of the following years are as follows: 1999 -- \$0.3 million; 2000 through 2007 -- \$3.1 million; 2008 -- \$30.6 million. Interest is payable monthly from November 30, 1998, and is based on LIBOR plus 1.4%.

On October 16, 1996, the Company entered into a long-term credit agreement under which the lenders who are parties to the credit agreement made available to the Company a \$400 million term loan facility and a \$250 million revolving credit facility. A portion of the revolving credit facility, in an amount not to exceed \$150 million, may be used (to the extent available) for standby and commercial letters of credit, and up to \$200 million of the revolving credit facility will be available to the Company for borrowings. Concurrent with entering into the credit agreement, the Company repaid all amounts outstanding under its pre-existing credit agreements totaling \$107.7 million, and terminated such agreements.

The term loan is repayable in consecutive quarterly installments with a final maturity on September 30, 2002, in aggregate amounts for each of the following years as follows: 1999 through 2001 -- \$75.0 million; 2002 -- \$80.0 million. The revolving credit facility expires September 30, 2002, with any outstanding amounts due on that date. The Company is required to pay commitment fees on the average daily unutilized portion of the term loan facility and the revolving credit facility, which fees were initially set at 0.375% per annum. The credit agreement permits the Company to choose either the Adjusted Base Rate (the "ABR") interest option which is based on the greater of the prime rate or the federal funds rate, or LIBOR, in each case, plus an applied margin. The interest rates and commitment fees are subject to change based on the Company's performance with respect to certain financial ratios set forth in the credit agreement.

The credit agreement includes restrictions as to, amongst other things, the amount of additional indebtedness, contingent obligations, liens, capital expenditures, and dividends, and requires the maintenance of certain financial ratios. At December 31, 1998, the credit agreement prohibited the payment of dividends. In addition, under the credit agreement, certain changes in control of the Company would cause an event of default and the banks could declare all outstanding borrowings under the credit agreement immediately due and payable. None of the restrictions contained in the credit agreement are expected to have a significant effect on the ability of the Company to operate. As of December 31, 1998, the Company was in compliance with all financial and operating covenants under the credit agreement.

The Company has pledged the common stock of certain of its subsidiaries as well as certain intercompany notes as collateral under the credit

agreement, and the Company and certain of its subsidiaries have guaranteed repayment of amounts borrowed under the credit agreement.

The available revolving credit commitment was \$213.6 million and \$203.6 million at December 31, 1998 and 1997, respectively. At December 31, 1998 and December 31, 1997, the Company had outstanding letters of credit totaling \$56.9 million and \$46.4 million, respectively.

The effective interest rate on the Company's long-term debt at December 31, 1998 and 1997 was 6.2 % and 6.9%, respectively. The Company paid interest of \$29.2 million, \$32.3 million, and \$12.9 million during the years 1998, 1997 and 1996, respectively.

NOTE 9 LEASES

The Company has various operating leases for both real and personal property including Company aircraft. Rental expense for 1998, 1997 and 1996 was \$15.5 million, \$10.9 million and \$13.4 million, respectively. Future minimum lease payments for all noncancelable operating leases having a remaining term in excess of one year at December 31, 1998, aggregated approximately \$40.0 million, and payments during the next five years are: 1999, \$13.0 million; 2000, \$9.6 million; 2001, \$7.0 million; 2002, \$2.1 million; 2003, \$1.4 million. The Company also receives sublease rental income under an operating lease which ends November 1999; the approximate future minimum sublease rental income is \$2.3 million.

NOTE 10 EMPLOYEE BENEFIT PLANS

PENSION PLANS

The Company maintains four defined benefit pension plans covering substantially all employees. Benefits paid to retirees are based primarily on age at retirement, years of credited service and compensation earned during employment. The Company's funding policy complies with the requirements of Federal law and regulations. The Company's total pension fund contributions were \$25.0 million, \$25.0 million, and \$34.4 million in 1998, 1997 and 1996, respectively. Effective August 19, 1998 and as part of the acquisition described in Note 2, the Company adopted a new pension plan, covering all employees of the acquired company and all non-vested employees of the Company except for those covered under a collective bargaining agreement.

OTHER BENEFIT PLANS

In addition to pension benefits, the Company provides certain health care insurance benefits to retired Company employees and their dependents. The Company currently funds these plans on a pay-as-you-go basis. Substantially all of the Company's salaried employees and certain hourly employees become eligible for such benefits when they attain certain age and service requirements while employed by the Company. In December 1998, a Voluntary Employees' Beneficiary Association Trust was established and funded with \$14.3 million of Company funds for the purpose of paying retiree claims. The Company will periodically obtain reimbursement from the Trust for retiree claims.

The Company has supplemental benefit plans covering certain key executives. These plans provide for benefits which supplement those provided by the Company's other retirement plans.

The following table is based on an actuarial valuation date as of September 30, and amounts recognized in the Company's consolidated financial statements as of December 31. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans:

<TABLE>

<CAPTION>

	Pension Benefits		Other Benefits	
	1998	1997	1998	1997
(In thousands)				
<S>	<C>	<C>	<C>	<C>
CHANGE IN BENEFIT OBLIGATION				
Benefit obligation at beginning of year	\$ 255,074	\$ 213,080	\$ 96,788	\$ 87,231
Service cost	17,599	12,466	5,616	4,283
Interest cost	18,842	16,743	7,277	6,820
Amendments	---	---	(2,742)	(879)
Actuarial (gain) loss	41,451	20,470	(34)	1,983
Benefits paid	(7,995)	(7,685)	(3,900)	(2,650)
Benefit obligation at end of year	\$ 324,971	\$ 255,074	\$ 103,005	\$ 96,788
CHANGE IN PLAN ASSETS				
Fair value of plan assets at beginning of year	\$ 239,001	\$ 163,598	\$ ---	\$ ---

Actual return on plan assets	9,164	49,892	---	---
Company contributions	25,000	33,196	3,900	2,650
Benefits paid	(7,995)	(7,685)	(3,900)	(2,650)

Fair value of plan assets at end of year	\$ 265,170	\$ 239,001	\$ ---	\$ ---

Funded status of the plans	\$ (59,801)	\$ (16,073)	\$ (103,005)	\$ (96,788)
Unrecognized actuarial (gain) loss	48,718	(3,900)	(15,472)	(15,839)
Unrecognized prior service cost (benefit)	5,393	5,860	(16,079)	(7,599)
Contributions paid in fourth quarter	6,250	6,250	15,168	809

Prepaid (accrued) benefit cost	\$ 560	\$ (7,863)	\$ (119,388)	\$ (119,417)
=====				
AMOUNTS RECOGNIZED IN THE CONSOLIDATED				
BALANCE SHEETS CONSIST OF:				
Prepaid benefit cost	\$ 190	\$ 2,543	\$ ---	\$ ---
Accrued benefit liability	(5,125)	(10,316)	(120,341)	(120,343)
Intangible asset	2,334	---	209	164
Accumulated other comprehensive income	3,161	---	744	762

Net amount recognized	\$ 560	\$ (7,863)	\$ (119,388)	\$ (119,417)
=====				

</TABLE>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were \$20.9 million, \$20.9 million, and \$19.8 million, respectively, as of December 31, 1998, and \$17.0 million, \$17.0 million, and \$17.8 million, respectively, as of December 31, 1997. Accumulated other comprehensive income represents minimum pension liability adjustments.

Net periodic pension and other benefit costs include the following components:

	Pension Benefits			Other Benefits		
Year ended December 31,	1998	1997	1996	1998	1997	1996

(In thousands)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Service cost	\$ 17,599	\$ 12,466	\$ 11,258	\$ 5,616	\$ 4,283	\$ 4,162
Interest cost	18,842	16,743	14,966	7,277	6,820	6,581
Expected return on plan assets	(20,442)	(16,385)	(12,950)	---	---	---
Amortization of prior service cost	467	467	313	(873)	(489)	(430)
Recognized actuarial (gain) loss	111	---	---	(400)	(648)	(377)

Net periodic benefit cost	\$ 16,577	\$ 13,291	\$ 13,587	\$ 11,620	\$ 9,966	\$ 9,936
=====						

WEIGHTED AVERAGE ASSUMPTIONS:

Discount rate	6.75%	7.50%	8.00%	6.75%	7.50%	8.00%
Expected return on plan assets	9.50%	9.50%	9.50%	---	---	---
Rate of compensation increase	4.75%	4.75%	4.75%	---	---	---

</TABLE>

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1-Percentage- Point Increase	1-Percentage- Point Decrease

(In thousands)		
Effect on total of service and interest cost components	\$ 2,071	\$ (1,685)
Effect on the postretirement benefit obligation	14,417	(11,989)

For measurement purposes, a 7.5% annual rate of increase in the per capita cost of medicare ineligible employees' covered health care benefits was assumed for 1998. The rate was assumed to decrease annually by 0.75% to 5.0% and remain at that level thereafter. For medicare eligible employees, a 5.25% annual rate of increase in the per capita cost of health care benefits was assumed for 1998. The rate was assumed to decrease annually by 0.75% to 4.5% and remain at that level thereafter.

INVESTMENT AND OTHER PLANS

The Company sponsors two voluntary 401(k) investment plans which cover all eligible employees and are designed to enhance existing retirement plans. The Company matches either 37.5% or 50.0% of the employee's contribution up

to a maximum of four percent of the employee's eligible compensation. Total expense for the plans were \$3.1 million, \$2.6 million and \$2.2 million for 1998, 1997 and 1996, respectively.

The Company has an Incentive Compensation Plan administered by the Compensation Committee of the Board of Directors which provides for payment of cash awards to officers and key employees based upon achievement of specific goals by the Company and the participating employees. For the years ended 1998, 1997 and 1996, provisions of approximately \$6.3 million, \$5.8 million and \$5.5 million, respectively, were charged against income related to the plan. Payouts are based entirely on achievement of financial and business objectives.

NOTE 11 STOCKHOLDERS' EQUITY

On October 16, 1996, the Company issued 4,559,100 shares of common stock, and selling stockholders sold 37,940,900 shares of common stock, in an initial public offering pursuant to the Securities Act of 1933 (the "Offering"). In connection and simultaneously with the closing of the Offering, the Company (a) effected a recapitalization plan (the "Recapitalization") which included (i) the repurchase of all of its outstanding 7% Series A Cumulative Preferred Stock for a purchase price of \$450 million plus approximately \$1.3 million of unpaid dividends, (ii) the exchange of all outstanding shares of Class A, Series A-2 and Class B common stock for Class A, Series A-1 common stock, (iii) the redesignation of all Class A, Series A-1 common stock into common stock, (iv) a 1.5-for-1 stock split of the common stock, and (v) the restatement of the Company's certificate of incorporation to provide that the authorized capital stock of the Company consists of 300,000,000 shares of common stock, par value of \$.01 per share, and 20,000,000 shares of Preferred Stock, par value of \$.01 per share, and (b) issued 3,949,346 shares of common stock to certain option holders pursuant to existing option agreements, who subsequently sold those shares in the Offering.

In May 1998, the Company completed a secondary offering (the "Secondary") in which 18 million shares of stock were sold by certain stockholders. The Company did not receive any of the proceeds from the sale of shares in the Secondary. In connection with the Secondary, certain current and former directors and employees of, and advisors to, the Company exercised stock options to purchase, in the aggregate, approximately 2.9 million shares of common stock from the Company for an aggregate exercise price of approximately \$27.4 million, after deducting issuance costs. The Company used the proceeds from these exercises for working capital purposes.

TREASURY STOCK

During January 1998, the Company announced a program to repurchase up to \$200 million of its common stock. As of December 31, 1998, the Company had repurchased approximately 5.5 million shares, at an average price of \$35.81 per share, for an aggregate amount of approximately \$198.5 million. The repurchase program was funded from the Company's available cash.

STOCK OPTIONS

Under the Amended and Restated 1990 Stock Option Plan approved by its stockholders effective March 28, 1997, as further amended, the Company has granted options to purchase its common stock to certain Company employees, directors and advisors. Generally, options granted prior to July 1, 1994, vest 25.0% on date of issuance, 25.0% on the first anniversary of the date of issuance and 25.0% annually thereafter. Generally, options granted on or after July 1, 1994, vest 33.3% on the first anniversary of the date of issuance, 33.3% on the second anniversary of the date of issuance and the last 33.3% on the third anniversary of the date of issuance. In addition, the Company has granted options to purchase its common stock to certain of its executive officers, directors and advisors outside the Stock Option Plan with vesting periods ranging from immediately up to three years. Generally, such options expire 10 years from date of grant.

The Company recorded compensation expense of \$6.9 million, \$1.6 million and \$7.2 million in 1998, 1997 and 1996, respectively, related to stock option grants and modification of certain existing grants in connection with the retirement of a senior executive. At December 31, 1998, approximately 5.3 million shares of common stock were reserved for issuance under the Stock Option Plan and non-plan options.

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, defines a fair value based method of accounting for an employee stock option or similar equity instrument. This statement gives entities a choice of recognizing related compensation expense by adopting the fair value method or to measure compensation using the intrinsic value approach under Accounting Principles Board (APB) Opinion No. 25. The Company has elected to continue using the measurement method prescribed by APB Opinion No. 25, by adopting the disclosure-only provisions of SFAS No. 123. Had compensation cost for the Company's stock options granted been determined based on the fair value at the grant dates

for awards under those plans consistent with a method prescribed in SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Year ended December 31,	1998	1997	1996
(In thousands, except per share amounts)			
Net income --			
As reported	\$ 225,288	\$ 243,011	\$ 46,965
Pro forma	218,708	240,769	46,480
Basic earnings per share--			
As reported	\$ 3.08	\$ 3.28	\$.64
Pro forma	2.99	3.25	.63
Diluted earnings per share--			
As reported	\$ 3.00	\$ 3.12	\$.60
Pro forma	2.91	3.09	.59

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1997 and 1996, respectively: expected volatility of 46.13%, 32.01% and 36.02%, respectively; risk-free interest rate of 4.75%, 5.96% and 6.27%, respectively; expected lives of three years for all years; and no dividend yield.

A summary of the status of the Company's stock option plans as of December 31, 1998, 1997 and 1996, and changes during the years ending on those dates is presented below:

<TABLE>
<CAPTION>

Options	1998		1997		1996	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding at beginning of year	6,494,978	\$ 9.40	5,729,279	\$ 3.91	8,691,573	\$ 3.88
Granted	2,334,674	47.53	1,566,000	26.72	1,020,000	4.10
Exercised	(3,572,160)	9.02	(631,877)	4.01	(3,949,346)	3.88
Forfeited	(318,195)	26.57	(168,424)	3.90	(32,948)	4.10
Outstanding at end of year	4,939,297	\$ 26.59	6,494,978	\$ 9.40	5,729,279	\$ 3.91
Options exercisable at year-end	2,794,729	\$ 13.22	4,112,728	\$ 3.86	3,817,582	\$ 3.80
Weighted average fair value of options granted during the year	\$ 17.07		\$ 6.97		\$ 10.13	

</TABLE>

Information with respect to stock options outstanding and exercisable at December 31, 1998, is as follows:

<TABLE>
<CAPTION>

Range of Exercise Prices	Options Outstanding		Options Exercisable		
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>
\$ 3.11-\$ 4.10	2,129,342	5.2	\$ 3.99	2,024,004	\$ 3.98
\$ 21.50-\$ 29.75	534,731	8.7	26.70	263,675	26.94
\$ 36.88-\$ 42.06	152,174	9.6	39.21	-	-
\$ 43.00-\$ 50.06	2,123,050	9.8	48.33	507,050	43.00
	4,939,297	7.7	\$ 26.59	2,794,729	\$ 13.22

</TABLE>

NOTE 12 RELATED PARTY TRANSACTIONS

At December 31, 1998 and 1997, certain partnerships formed by Forstmann Little & Co. ("Forstmann Little") owned approximately 22.8% and 42.1%, respectively, of the Company's common stock.

During 1998, the Company sold to a director of the Company a Gulfstream V previously utilized by the Company as a flight test aircraft, for a purchase price equal to the estimated fair market value of the aircraft. In 1997, the Company purchased a pre-owned aircraft for \$21.0 million from the same director.

Under a usage agreement which ended in August 1996, the Company paid an affiliate of Forstmann Little for the use of a Gulfstream IV which was utilized as a demonstrator aircraft by the Company. Total expenses associated with this agreement were \$1.6 million in 1996 and \$2.3 million in 1995. Beginning in August 1996, the Company engaged an affiliate of Forstmann Little to manage the operations of the Gulfstream IV aircraft discussed below. Total payments were \$2.0 million, \$2.1 million and \$0.7 million in 1998, 1997 and 1996, respectively. Management believes all these transactions with related parties are on terms similar to those of other customers and suppliers.

In August 1996, the Company entered into agreements with the Company's Chairman pursuant to which the Company will provide the Chairman with the use of a Gulfstream V for a period of ten years. Until the Gulfstream V becomes available, the Company has made available to the Chairman a Gulfstream IV, which the Company received through an assumption of a lease from an affiliate of Forstmann Little. During January 1997, the Company exercised its early buyout option under the lease and purchased the aircraft from the lessor, an international financial institution. The Chairman paid \$0.8 million in both 1998 and 1997 and has agreed to pay the Company up to \$1.0 million annually for non-company use of the aircraft. If the Chairman is no longer serving as a director or official of the Company, he has agreed to reimburse the Company \$1,800 per hour for all use of the aircraft, or other such rate required so as not to exceed FAA regulatory requirements.

NOTE 13 COMMITMENTS AND CONTINGENCIES

In the normal course of business, lawsuits, claims and proceedings have been or may be instituted or asserted against the Company relating to various matters, including product liability. Although the outcome of litigation cannot be predicted with certainty and some lawsuits, claims or proceedings may be disposed of unfavorably to the Company, management has made provision for all known probable losses related to lawsuits and claims and believes that the disposition of all matters which are pending or asserted will not have a material adverse effect on the financial statements of the Company.

The Company is currently engaged in the monitoring and cleanup of certain groundwater at its Savannah facility under the oversight of the Georgia Department of Natural Resources. Expenses incurred for cleanup have not been significant. Liabilities are recorded when environmental assessments and/or remedial efforts are probable and the costs can be reasonably estimated. The Company believes the remainder of the Savannah facility, as well as other Gulfstream properties, are being carefully monitored and are in substantial compliance with current federal, state and local environmental regulations. The Company believes the liabilities, if any, that will result from the above environmental matters will not have a material adverse effect on its financial statements.

The Company has agreements with certain of its suppliers to procure major aircraft components such as engines, wings, and avionics. The agreements vary in length from three to five years and generally provide for price and quantity of components to be supplied. In connection with the Gulfstream V program, the Company has entered into revenue sharing agreements with two suppliers. The terms of such agreements require the suppliers to design, manufacture and supply certain aircraft components in exchange for a fixed percentage of the revenues of each Gulfstream V sold. Progress payments under the revenue sharing agreements are generally required to be made on a pro rata basis concurrent with the associated deposits received on Gulfstream V contracts.

As of December 31, 1998, in connection with orders for 21 Gulfstream V aircraft in the financial contract backlog, the Company has offered customers trade-in options (which may or may not be exercised by the customer) under which the Company will accept trade-in aircraft (primarily Gulfstream IVs and IV-SPs) at a guaranteed minimum trade-in price. Additionally, in connection with recorded sales of new aircraft, at December 31, 1998, the Company has agreed to accept pre-owned aircraft totaling \$209.9 million. Management believes that the fair market value of all such aircraft exceeds the specified trade-in value.

NOTE 14 EARNINGS PER SHARE

Basic EPS is computed based on net income divided by the weighted average common shares outstanding. Diluted EPS is computed by dividing net income by the weighted average common shares outstanding plus the incremental shares that would have been outstanding under stock option plans.

EPS information for 1996 is based on historical unadjusted net income divided by pro forma weighted average number of shares. Shares included for basic EPS give retroactive effect to the Recapitalization, the shares issued to option holders upon the exercise of options at the date of the Offering, and the shares issued pursuant to the Offering (all of which are described in Note 11) as if such transactions had occurred at the beginning of the period. Diluted EPS further includes the effects of options granted in 1996 as if such options had been outstanding for the entire period.

The following table sets forth the reconciliation of per share data:

Year ended December 31,	1998	1997	1996
(In thousands, except per share amounts)			
NET INCOME	\$ 225,288	\$ 243,011	\$ 46,965
BASIC EPS			
Average shares issued and outstanding (after giving effect to the Recapitalization)	73,089	74,095	67,530
Exercise of certain stock options with the Offering			2,962
Shares issued pursuant to the Offering			3,419
Weighted average common shares outstanding	73,089	74,095	73,911
DILUTED EPS			
Incremental shares from stock options	1,947	3,800	4,624
Weighted average common and common equivalent shares outstanding	75,036	77,895	78,535
EARNINGS PER SHARE:			
Basic	\$ 3.08	\$ 3.28	\$.64
Diluted	\$ 3.00	\$ 3.12	\$.60

NOTE 15 BUSINESS SEGMENTS AND RELATED INFORMATION

The Company adopted SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, during 1998. SFAS No. 131 established standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to stockholders. It also established standards for related disclosures about products and services, and geographic areas.

The Company operates in three reportable segments: New Aircraft, Aircraft Services and Pre-Owned Aircraft. New Aircraft is comprised of the design, development, production (including customized interiors and optional avionics) and sale of large business aircraft to customers on a worldwide basis. Aircraft Services provides aftermarket maintenance services, spare parts, engine and auxiliary power unit service and overhaul for both Gulfstream and other business aircraft. The Company's Pre-Owned Aircraft segment consists of the sale of pre-owned Gulfstream aircraft and other business aircraft acquired as trade-ins against the sale of new aircraft to a worldwide market. The accounting policies used to develop segment information correspond to those described in the summary of significant accounting policies in Note 1. Intersegment sales and transfers are not significant. The Company has no significant assets domiciled outside of the United States and assets are not allocated to reportable segments. The information for 1997 and 1996 has been restated from the prior year's presentation in order to conform to the 1998 presentation.

Gulfstream evaluates each segment's performance based on gross profit margins (net revenues less cost of sales) excluding inventory step-up charges. Summarized financial information concerning the Company's reportable segments is shown in the following table. Unallocated expenses represent expenses not directly related to the reportable segments.

Year ended December 31,	Net Revenues		
	1998	1997	1996
(In millions)			
New Aircraft	\$ 1,909.0	\$ 1,492.0	\$ 740.5
Aircraft Services	281.8	201.1	169.9
Pre-owned aircraft	237.2	210.4	153.3

Total Net Revenues	\$ 2,428.0	\$ 1,903.5	\$ 1,063.7
--------------------	------------	------------	------------

Year ended December 31,	Segment Gross Margin		
	1998	1997	1996
(In millions)			
New Aircraft	\$ 464.3	\$ 297.5	\$ 193.9
Aircraft Services	53.7	45.0	36.5
Pre-owned Aircraft	11.4	8.2	(1.7)
Segment gross margin	529.4	350.7	228.7
Unallocated expenses	(156.7)	(122.0)	(178.4)
Income from operations	372.7	228.7	50.3
Interest income	7.3	11.5	14.6
Interest expense	(28.0)	(31.1)	(17.9)
Income before income taxes	\$ 352.0	\$ 209.1	\$ 47.0

The following table presents revenues by geographic area of the location of the Company's customers:

Year ended December 31,	1998	1997	1996
(In millions)			
North America			
United States	\$ 1,833.0	\$ 1,403.1	\$ 799.4
Canada and Mexico	96.4	67.3	5.2
Total North America	1,929.4	1,470.4	784.6
Asia/Pacific	243.5	162.9	85.1
Africa/Middle East	104.9	3.8	71.5
Europe	83.4	185.2	24.6
Latin America/Other	66.8	81.2	97.9
Total	\$ 2,428.0	\$ 1,903.5	\$ 1,063.7

During 1996, revenues from one customer included in the New Aircraft and Aircraft Services reportable segments represented approximately 11.7% of the Company's total revenues.

NOTE 16 SUBSEQUENT EVENT

On March 1, 1999, the Company established a program to repurchase up to an additional \$200 million of its common stock. The purchases will be made from time to time in the open market or through negotiated transactions as market conditions warrant.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders of Gulfstream Aerospace Corporation:

We have audited the consolidated balance sheets of Gulfstream Aerospace Corporation and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Gulfstream Aerospace Corporation and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

/s/ DELOITTE & TOUCHE LLP
 DELOITTE & TOUCHE LLP
 Atlanta, Georgia
 February 1, 1999
 (March 1, 1999 as to Note 16)

REPORT OF MANAGEMENT'S RESPONSIBILITY

The management of Gulfstream Aerospace Corporation is responsible for the preparation and integrity of the consolidated financial statements of the Company. The financial statements and notes have been prepared by the Company in accordance with generally accepted accounting principles and, in the judgment of management, present fairly the Company's financial position and results of operations. The financial information contained elsewhere in this annual report is consistent with that in the financial statements. The financial statements and other financial information in this annual report include amounts that are based on management's best estimates and judgments and give due consideration to materiality.

The Company maintains a system of internal accounting controls to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The Board of Directors discharges its responsibility for the Company's financial statements primarily through its Audit Committee. The Audit Committee, comprised solely of outside directors, meets periodically and privately with the independent auditors and representatives from management to appraise the adequacy and effectiveness of internal control systems and quality of our financial accounting and reporting.

The Company's independent auditors, Deloitte & Touche LLP, are recommended by the Audit Committee of the Board of Directors, selected by the Board of Directors and ratified by our Company's stockholders. Deloitte & Touche LLP is engaged to perform an audit of the consolidated financial statements of Gulfstream Aerospace Corporation and subsidiaries. This audit provides an objective outside review of management's responsibility to report operating results and financial condition. They audit and perform tests, as appropriate, of the data included in the financial statements.

/s/ Chris A. Davis
 Chris A. Davis
 Executive Vice President and
 Chief Financial and Administrative Officer
 February 1, 1999

QUARTERLY FINANCIAL RESULTS (UNAUDITED)

The following tables set forth the unaudited consolidated statements of operating data for each quarter of 1998 and 1997. The operating results for any quarter are not indicative of results for any future period.

<TABLE>
 <CAPTION>

1998	First	Second	Third	Fourth
(In thousands, except deliveries and per share amounts)				
<S>	<C>	<C>	<C>	<C>
Net revenues	\$503,407	\$557,042	\$626,177	\$741,332
Gross profit	99,338	125,817	138,816	156,238
Income from operations (1)	69,246	91,607	103,676	108,163
Net income	40,481	55,577	64,721	64,509
Earnings per share:				
Basic	\$.56	\$.75	\$.88	\$.89
Diluted	\$.54	\$.73	\$.86	\$.87
Aircraft deliveries (in units):				
Gulfstream IV-SP (green)	6	8	9	9
Gulfstream V (green)	7	7	7	8
Completion -- Gulfstream	7	9	11	19
Completion -- Non-Gulfstream	-	-	5	3
Pre-owned aircraft	3	4	2	3

1997	First	Second	Third	Fourth
(In thousands, except deliveries and per share amounts)				
<S>	<C>	<C>	<C>	<C>
Net revenues	\$375,626	\$522,906	\$464,036	\$540,926
Gross profit	70,474	76,010	91,053	108,437
Income from operations (1)	47,037	45,445	60,668	75,546
Net income	40,030	39,504	119,088 (2)	44,389 (2)
Earnings per share:				
Basic	\$.54	\$.53	\$ 1.61	\$.60
Diluted	\$.51	\$.50	\$ 1.54	\$.58
Pro forma (fully taxed)				
Earnings per share -- diluted (3)	\$.33	\$.32	\$.45	\$.58
Aircraft deliveries (in units):				
Gulfstream IV-SP (green)	5	5	6	6
Gulfstream V (green)	6	7	8	8
Completion	5	5	5	11
Pre-owned aircraft	1	9	2	2

<FN>

(1) Non-cash compensation expense of \$0.3 million, \$0.5 million, \$0.1 million, and \$6.0 million was recorded in each of the 1998 quarters, and \$0.5 million, \$0.5 million, \$0.3 million, and \$0.3 million was recorded in each of the 1997 quarters, respectively, related to the issuance of options to purchase common stock. See Note 11 to the consolidated financial statements.

(2) As described under the caption Income Taxes on page 22, the Company recorded a net income tax benefit of \$63.1 million during the third quarter of 1997. During the fourth quarter of 1997, the Company recorded an income tax provision of \$26.6 million based on an estimated effective tax rate of 37.5%.

(3) Pro forma (fully taxed) earnings per share -- diluted is presented for all periods assuming an estimated effective tax rate of 37.5%.

</FN>

</TABLE>

QUARTERLY COMMON STOCK PRICE RANGE

1998	First	Second	Third	Fourth
High	\$44.44	\$46.94	\$51.50	\$57.44
Low	28.75	41.25	31.13	29.00
1997	First	Second	Third	Fourth
High	\$24.13	\$32.75	\$31.13	\$32.06
Low	21.25	21.75	26.00	26.50

Gulfstream Aerospace Corporation's common stock is traded principally on the New York Stock Exchange under the symbol GAC. At March 1, 1999, there were approximately 245 holders of record. The Company has never paid cash dividends on its common stock and does not anticipate paying any cash dividends in the near future.

<TABLE>

<CAPTION>

SELECTED FINANCIAL DATA

Fiscal Year	1998	1997	1996	1995	1994
(In thousands, except per share data)					
<S>	<C>	<C>	<C>	<C>	<C>
INCOME STATEMENT DATA					
Revenues	\$2,427,958	\$1,903,494	\$1,063,713	\$1,041,514	\$901,638
Income from operations	372,692	228,696	50,269	42,090	43,883
Net income	225,288	243,011	46,965	28,894	23,564
Earnings per share:					
Basic (1)	3.08	3.28	.64	.39	N/A
Diluted (1)	3.00	3.12	.60	.37	N/A

Pro forma (fully taxed)
Earnings per share--diluted (2) 3.00 1.68 0.37 0.23 N/A

BALANCE SHEET DATA

Working capital	\$ 139,407	\$ 295,811	\$ 138,091	\$ 356,976	\$301,913
Total assets	1,614,134	1,473,667	1,313,215	981,253	745,761
Total debt	361,000	380,000	400,000	146,331	178,145
Total stockholders' equity (deficit) (3)	195,680	92,757	(188,811)	217,540	188,950

<FN>

(1) Earnings per share (EPS) information for 1996 and 1995 is based on historical unadjusted net income divided by pro forma weighted average number of shares. Shares included for basic EPS give retroactive effect to the Recapitalization, the shares issued to option holders upon the exercise of options at the date of the Offering, and the shares issued pursuant to the Offering (all of which are described in Note 11 to the consolidated financial statements) as if such transactions had occurred at the beginning of the period. Diluted EPS further includes the effects of options granted in 1996 and 1995 as if such options had been outstanding for all periods presented. See also Note 14 to the consolidated financial statements for a reconciliation of per share data.

(2) Pro forma (fully taxed) earnings per share -- diluted is presented for all periods prior to 1998 assuming an effective tax rate of 37.5%.

(3) Total stockholders' equity and total debt at December 31, 1996 gives effect to the Recapitalization and Offering which occurred during the fourth quarter 1996. See "Liquidity and Capital Resources" on page 23.

</FN>

</TABLE>

CORPORATE INFORMATION

CORPORATE OFFICES

Gulfstream Aerospace Corporation
500 Gulfstream Road
Savannah, Georgia 31408
912 965-3000

MAILING ADDRESS

P.O. Box 2206
Savannah, Georgia 31402-2206

WEBSITE

www.gulfstreamaircraft.com

STOCK LISTINGS

New York Stock Exchange
Symbol "GAC"

ANNUAL MEETING

May 19, 1999 at 9:30 a.m.
St. Regis Hotel
Two East 55th Street
Iridium Room-Lower Level
New York, New York 10022

TRANSFER AGENT & REGISTRAR

ChaseMellon Shareholder Services, L.L.C.
Overpeck Centre
85 Challenger Road
Ridgefield Park, New Jersey 07660
800 526-0801
www.chasemellon.com

INDEPENDENT AUDITORS

DELOITTE & TOUCHE LLP

191 Peachtree Street
Atlanta, Georgia 30303

FINANCIAL INFORMATION

Copies of Gulfstream's annual report and Form 10-K submitted to the Securities and Exchange Commission may be obtained by visiting the Company's website or by written request to:

Gulfstream Investor Relations
P.O. Box 2206, Mail Stop A-01
Savannah, Georgia 31402-2206

Gulfstream(R)
P.O. Box 2206 Savannah, Georgia 31402-2206
912 965-3000 www.gulfstreamaircraft.com

<TABLE>
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SUBSIDIARIES OF GULFSTREAM AEROSPACE CORPORATION

<S> Subsidiary Name -----	<C> Doing Business As -----	<C> Jurisdiction of Incorporation -----
Gulfstream Aerospace Corporation		California
Gulfstream Delaware Corporation		Delaware
Gulfstream International Corporation		Delaware
Gulfstream Aircraft Incorporated		Georgia
Gulfstream Financial Services Corporation		Georgia
Gulfstream Aerospace Corporation		Georgia
Gulfstream Aerospace Corporation	Gulfstream Aerospace Technologies	Oklahoma
Gulfstream Aerospace Corporation of Texas		Texas
Gulfstream Aerospace (Middle East) Ltd.		Cyprus
Interiores Aereos S.A. De C.V.		Mexico
Gulfstream Aerospace Services Corporation	Gulfstream Aerospace Corporation	Delaware

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Amounts inapplicable or not disclosed as a separate line on the Statement of Financial Position or Results of Operations are reported as 0 herein.

<F1> Notes and accounts receivable - trade are reported net of allowances for doubtful accounts in the Consolidated Balance Sheet.

<F2> Property, plant and equipment are reported net of accumulated

depreciation in the Consolidated Balance Sheet.

</FN>

</TABLE>

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR"
PROVISIONS OF THE PRIVATE SECURITIES REFORM ACT OF 1995

Gulfstream Aerospace Corporation (the "Company" or "Gulfstream") cautions readers that the important factors set forth below, as well as factors discussed in other documents filed by the Company with the Securities and Exchange Commission (the "SEC"), among others, could cause the Company's actual results to differ materially from statements contained in this report, future filings by the Company with the SEC, the Company's press releases and oral statements made by or on behalf of the Company.

The words "estimate", "project", "anticipate", "expect", "intend", "believe", "target" and similar expressions are intended to identify forward looking statements. In addition, these factors relate specifically to the Company's statements regarding earnings per share for 1999 and subsequent years and the assumptions underlying those statements, including assumptions regarding green aircraft deliveries, completions, margin improvements, new aircraft sales and backlog stability.

AIRCRAFT PRODUCTION AND COMPLETION

The Company records revenue from the sale of a new "green" aircraft (i.e., before exterior painting and installation of customer selected interiors and optional avionics) when the green aircraft is delivered to the customer. The Company records revenues from completion services when the outfitted aircraft is delivered to the customer. The Company plans to deliver approximately 65 green aircraft in fiscal 1999. Risks associated with green deliveries and completions include the following:

Purchased Materials and Equipment. Approximately 70% of the production costs of both the Gulfstream IV-SP and the Gulfstream V consist of materials and equipment purchased from other manufacturers. While the Company's production activities have never been materially affected by its inability to obtain components, and while the Company maintains business interruption insurance in the event that a disruption should occur, the failure of the Company's suppliers to meet the Company's performance specifications, quality standards or delivery schedules could have a material adverse impact on the Company's delivery schedule.

Workforce. The Company's ability to meet its production and completion schedules depends on the Company meeting its needs for skilled labor. Although the Company's ability to hire required skilled labor has not to date adversely affected its ability to meet its production and completion schedules, there can be no assurance that this favorable condition will continue. In 1996, the Company entered

into a 5-year contract with a union representing certain of its employees at its Oklahoma Facility. Although employee relations are generally good, a work stoppage or other labor action could materially and adversely affect the Company's production schedule.

Facilities. Green aircraft are assembled at one facility. Detailed parts and subassemblies are manufactured at two additional facilities. Completions are performed at five facilities. Although the Company maintains property and business interruption insurance, any severe property damage or other casualty loss at one of these facilities could materially and adversely affect the Company's delivery schedule.

Gulfstream V Efficiency. The Company expects to become more efficient at producing and completing Gulfstream V aircraft as it gains more experience in this aircraft program. If the Company is unable to achieve anticipated efficiencies, its delivery schedule could be adversely impacted.

Period-to-Period Fluctuations. Since the Company relies on the sales of a relatively small number of high unit selling price new aircraft to provide the substantial portion of its revenues, even a small decrease in the number of deliveries in any period could have a material adverse effect on the results of operations for that period. As a result, a delay or an acceleration in the delivery of new aircraft may affect the Company's revenues for a particular quarter or year and may make quarter-to-quarter or year-to-year comparisons difficult.

MARGIN IMPROVEMENTS

The Company expects gross margins (excluding inventory step-up resulting from the K-C Aviation acquisition and pre-owned aircraft, which are typically sold at break-even levels) to continue to improve. Risks associated with margin improvement include the following:

Gulfstream V Learning Curve. The Company expects production and completion costs to fall as the Company gains more experience in producing and completing Gulfstream V aircraft. Delays in anticipated cost reductions would adversely affect margin improvements. If subsequent improvement is not achieved as quickly or to the extent anticipated, the Company may be unable to achieve its margin targets.

Cost of Materials. Approximately 70% of the production costs of both the Gulfstream IV-SP and the Gulfstream V consist of materials and equipment purchased from other manufacturers. Although the Company has in place revenue share and long-term supply arrangements that help protect it against materials price increases, if the Company experiences price pressure on materials, margins could be adversely affected.

STABILITY OF BACKLOG

At December 31, 1998, the Company had a financial contract backlog of approximately \$3.3 billion. The following factors could adversely affect the stability of the backlog:

New Orders. The Company's principal business is the design, development, manufacture and marketing of large and ultra-long range business jet aircraft. Because of the high unit selling price of its aircraft products and the availability of commercial airlines and charters as alternative means of business travel, a downturn in general economic conditions could result in a reduction in the orders received by the Company for its new and pre-owned aircraft. The Company would not be able to rely on sales of other products to offset a reduction in sales of its aircraft. If a potential purchaser is experiencing a business downturn or is otherwise seeking to limit its capital expenditures, the high unit selling price of a new Gulfstream aircraft could result in the potential purchaser deferring its purchase or changing its operating requirements and electing to purchase a competitor's lower priced aircraft. In addition, if a significant number of customers resell their purchase contracts, the Company's new order intake could be adversely affected. If the Company's new order intake rate varies, the Company could be required to adjust its production rate.

Production Delays. While the Company generally receives non-refundable deposits in connection with each order, an order may be canceled (and the deposit returned) under certain conditions if the delivery of an aircraft is delayed more than three months after a customer's scheduled delivery date. An extended delay in the production or completion process could cause an increase in the number of cancellations of orders, which could have an adverse effect on the Company's results of operations.

Business and Economic Conditions. Although 75% of the Company's backlog consists of North American customers and 43% of North American customers are Fortune 500 companies, adverse business and economic conditions could cause customers to be unable or unwilling to consummate the purchase of an aircraft and could, therefore, increase the number of cancellations experienced by the Company.

YEAR 2000 READINESS

As part of the Company's initiatives, begun in 1996, to increase production rates and co-produce the Gulfstream IV-SP and Gulfstream V, the Company has, and continues to, upgrade and replace business systems and facility infrastructure. These initiatives help to reduce the potential impact of the Year 2000 issue on the Company's operations. In addition, the Company has implemented a Year 2000 Compliance Plan designed to ensure that all other hardware, software, systems, and products with microprocessors relevant to the Company's business are not adversely affected by the Year

2000 issue.

The Company does not believe that the implementation of this Year 2000 Compliance Plan will have a material effect on the Company's business operations, financial condition, liquidity or capital resources. Management of the Company believes it has an effective program in place to address the Year 2000 issue in a timely manner. As a component of the Year 2000 Compliance Plan, the Company is developing contingency plans to mitigate the effects of potential problems experienced by it or its key suppliers or governmental agencies in the timely implementation of its Year 2000 Compliance Plan. Nevertheless, since it is not possible to anticipate all future outcomes, especially when third parties are involved, there could be circumstances in which the Company's operations would be adversely affected.

SAFETY RECORD

The Company believes that its reputation and the exemplary safety record of its aircraft are important selling points for new and pre-owned Gulfstream aircraft. However, if one or a number of catastrophic events were to occur with the Gulfstream fleet, Gulfstream's reputation and sales of Gulfstream aircraft could be adversely affected.

PRE-OWNED AIRCRAFT MARKET

In many cases, the Company has agreed to accept, at the customer's option, the customer's pre-owned aircraft as a trade-in in connection with the purchase of a Gulfstream IV-SP or Gulfstream V. Based on the current market for pre-owned aircraft, the Company expects to continue to be able to resell pre-owned aircraft taken in trade, and does not expect to suffer a loss with respect to these trade-ins and resales. However, an increased level of pre-owned aircraft or changes in the market for pre-owned aircraft may increase the Company's inventory costs and may result in the Company receiving lower prices for its pre-owned aircraft.

COMPETITION

The market for large cabin and ultra-long range business aircraft is highly competitive. The Gulfstream IV-SP competes in the large cabin business aircraft market segment, principally with Dassault Aviation S.A.'s Falcon 900EX and 900B. The Gulfstream V competes in the ultra-long range business aircraft market segment, primarily with Bombardier Inc.'s Global Express and, to a lesser extent, corporate versions of the Boeing 737 and Airbus A319. The Company's competitors may have access to greater resources (including, in certain cases, governmental subsidies) than are available to the Company.

The Company's ability to compete successfully in the large and ultra-long range business aircraft markets over the long term requires continued technological and performance enhancements to Gulfstream aircraft. No assurance can be given that the Company's competitors will not

be able to produce aircraft capable of performance comparable or superior to Gulfstream aircraft in the future.

Increased price-based competition by the Company's competitors could pressure the Company to also reduce its prices. Price reductions could have a significant impact on the Company's margins. In addition, if a significant number of customers were to cancel orders for the Company's aircraft in order to purchase a competitive product, there could be a material adverse effect on the Company's backlog.

PENDING TAX AUDIT

The Company is involved in tax audits by the Internal Revenue Service covering the years 1990 through 1994. The revenue agent's reports include several proposed adjustments involving the deductibility of certain compensation expense, items relating to the initial capitalization of the Company, the allocation of the original purchase price for the acquisition by the Company of the Gulfstream business, including the treatment of advance payments with respect to and the cost of aircraft that were in backlog at the time of the acquisition, and the amortization of amounts allocated to intangible assets. The Company believes that the ultimate resolution of these issues will not have a material adverse effect on its financial statements because the financial statements already reflect what the Company currently believes is the expected loss of benefit arising from the resolution of these issues. However, because the revenue agent's reports are proposing adjustments in amounts materially in excess of what the Company has reflected in its financial statements and because it may take several years to resolve the disputed matters, the ultimate extent of the Company's expected loss of benefit and liability with respect to these matters cannot be predicted with certainty and no assurance can be given that the Company's financial position or results of operations will not be adversely affected.

LEVERAGE AND DEBT SERVICE

The degree to which the Company is leveraged at a particular time could have important consequences to the Company, including the following: (i) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, product development, acquisitions, general corporate purposes or other purposes may be impaired; (ii) a portion of the Company's and its subsidiaries' cash flow from operations must be dedicated to the payment of the principal of and interest on its indebtedness; (iii) the Company's credit agreement contains certain restrictive financial and operating covenants, including, among others, requirements that the Company satisfy certain financial ratios; (iv) a significant portion of Gulfstream's borrowings will be at floating rates of interest, causing Gulfstream to be vulnerable to increases in interest rates; (v) the Company's degree of leverage may make it more vulnerable in a downturn in general economic conditions; and (vi) the Company's financial position may limit its flexibility in responding to changing business and economic conditions.