

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED)--APRIL 23, 1996

LOCKHEED MARTIN CORPORATION
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | | |
|--|-------------------------------------|--|
| MARYLAND (STATE OR OTHER JURISDICTION OF INCORPORATION) | 1-11437 (COMMISSION FILE NUMBER) | 52-1893632 (IRS EMPLOYER IDENTIFICATION NO.) |
|--|-------------------------------------|--|

6801 ROCKLEDGE DRIVE,
BETHESDA, MARYLAND
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

20817
(ZIP CODE)

(301) 897-6000
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

NOT APPLICABLE
(FORMER NAME OR ADDRESS, IF CHANGED SINCE LAST REPORT)

ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS

On January 7, 1996, Lockheed Martin Corporation (the "Corporation") and its wholly owned subsidiary, LAC Acquisition Corporation ("LAC"), entered into an Agreement and Plan of Merger (the "Loral Merger Agreement") with Loral Corporation ("Loral") pursuant to which LAC agreed to commence a tender offer to purchase all of the issued and outstanding shares of common stock of Loral (together with the associated preferred stock purchase rights) for an aggregate consideration of \$38 per share, net to the Seller in cash, without interest (the "Tender Offer"). The Tender Offer was made as part of a series of transactions that resulted in (i) the distribution, to stockholders of Loral immediately prior to the consummation of the Tender Offer, of shares of capital stock in Loral Space & Communications, Ltd. ("Loral SpaceCom"), a newly-formed Bermuda company, which now owns and manages substantially all of Loral's former space and satellite telecommunications interests, including Loral's direct and indirect interests in Globalstar, L.P. and Space Systems/Loral, Inc. and certain other assets of Loral, and (ii) the acquisition by the Corporation of Loral's defense electronics and systems integration businesses.

In accordance with the terms of the Tender Offer and the Loral Merger Agreement, on April 23, 1996, LAC purchased approximately 94.5% of the outstanding shares of common stock of Loral. Subsequent to the consummation of the Tender Offer, on April 29, 1996, in accordance with the terms of the Loral Merger Agreement, LAC merged with and into Loral and pursuant thereto each remaining share of common stock of Loral not owned by LAC was converted into the right to receive \$38, each outstanding share of common stock of LAC was converted into shares of common stock of Loral, and Loral changed its name to Lockheed Martin Tactical Systems, Inc. ("Tactical Systems" or the "Company"). As a result of these transactions, Tactical Systems became a wholly owned subsidiary of the Corporation. References in Item 7 and in Exhibits 99(a) and 99(b) of this Current Report on Form 8-K to "Loral Corporation and Subsidiaries--Retained Business" constitute references to Tactical Systems.

In connection with the transactions contemplated by the Loral Merger Agreement and the related agreements between the Corporation and Loral, the Corporation acquired shares of preferred stock of Loral SpaceCom that are convertible into 20% of Loral SpaceCom's common stock on a fully diluted basis. The Corporation's ownership of the preferred stock of Loral SpaceCom is subject to certain limitations and restrictions set forth in the terms and conditions of the preferred stock and in agreements between the Corporation and Loral SpaceCom.

The purchase price paid by the Corporation in connection with the transactions contemplated by the Loral Merger Agreement was determined by arms-length negotiations between the Corporation and Loral. Prior to the execution of the Loral Merger Agreement, other than certain contracts in the ordinary course of business that were the result of arm's length negotiations, neither the Corporation nor, to its knowledge, any of its affiliates, directors or officers, or any associate of any director or officer, had any material relationship with Loral.

The funds for the consummation of the Tender Offer and the transactions contemplated by the Loral Merger Agreement were provided through the issuance of commercial paper by the Corporation and through borrowings under revolving credit facilities (the "Credit Facilities") with a syndicate of commercial banks formed by Morgan Guaranty Trust Company of New York and Bank of America National Trust and Savings Association, as Co-Arrangers. The Credit Facilities consist of a 364-day unsecured revolving credit facility in the amount of \$5 billion and a 5-year unsecured revolving credit facility in the amount of \$5 billion. There are no required prepayments or scheduled reductions of availability of loans under the Credit Facilities. Management of the Corporation intends to refinance a portion of the indebtedness incurred in connection with the consummation of the Tender Offer and the transactions contemplated by the Loral Merger Agreement in the long-term debt markets.

Each Bank's obligation to make loans under the Credit Facilities is subject to, among other things, compliance by the Corporation with various representations, warranties, covenants and agreements, including but not limited to covenants limiting the ability of the Corporation and certain of its subsidiaries to encumber their assets and a covenant not to exceed a maximum leverage ratio.

In connection with the closing of the Credit Facilities, the Corporation and Loral each terminated their previously existing revolving credit facilities.

In connection with the consummation of the transactions contemplated by the Loral Merger Agreement, the Corporation assumed the obligations of Loral as guarantor under the Revolving Credit Agreement of Globalstar, L.P. (the "Globalstar Revolving Credit Agreement"), an affiliate of Loral SpaceCom, and the parties to the Globalstar Revolving Credit Agreement released Loral from its prior guarantee. The maximum principal amount of loans to Globalstar, L.P. that are guaranteed by the Corporation as a result of these transactions is \$250 million, subject to the assumption by certain of the Globalstar partners of a portion of the Corporation's obligations as guarantor.

Reference is made to Item 5, "Other Events," for certain information concerning the business of Tactical Systems.

ITEM 5. OTHER EVENTS

A. BUSINESS OF LOCKHEED MARTIN TACTICAL SYSTEMS, INC.

The principal businesses of Tactical Systems consist of electronic combat; command, control, communications and intelligence ("C/3/I") and reconnaissance; training and simulation; tactical weapons; systems integration; and space. Tactical Systems supplies electronic systems, components and services to the United States Government and foreign governments for defense and non-defense applications.

Sales to the United States Government, excluding foreign military sales, represented approximately 79.0% and 78.3% of Tactical Systems' sales for the nine months ended December 31, 1995 and for the year ended March 31, 1995, respectively.

Products and Services

Electronic Combat. The Electronic Combat business, which historically concentrated primarily in the manufacture of self-protection devices, electronic countermeasures and targeting/tracking systems for tactical fighter jets and support aircraft, has grown to encompass military avionics, helicopter, shipboard and armored vehicle systems integration.

The growing requirement for systems integration in aircraft, ship, and ground vehicle defenses has caused the Electronic Combat business to develop and acquire capabilities to integrate defense systems weapons, platforms and sensors. In recent years, the Electronic Combat business has placed increased importance on maritime and border surveillance, requiring capabilities the Electronic Combat business acquired as a prime systems integrator for United States and foreign government naval fixed-wing and rotary wing surveillance aircraft.

The Electronic Combat business has prime systems integration responsibility for the United Kingdom's EH-101 Merlin antisubmarine warfare (ASW) helicopter and the United States Navy's Light Airborne Multipurpose System (LAMPS) Mk III ASW helicopter. As prime contractor for the LAMPS Block II upgrade, the Electronic Combat business is developing and integrating new radar, electronic support measures, mission computing, control-and-display technology and new operational software.

The Electronic Combat business also provides systems integration expertise in both national and international shore- and carrier-based maritime patrol, airborne early warning, and airborne command and control systems. Programs in these areas include the P-3C Antisurface Warfare Improvement Program, the Royal Australian Air Force P-3 Data Management System upgrade and the P-3C Update III.

The Electronic Combat business produces and supplies the NITE Hawk forward looking infrared (FLIR) targeting and weapon delivery pods. The NITE Hawk, which permits United States Navy and Marine Corps

F/A-18 pilots to autonomously identify, track and deliver precision munitions on targets in daylight or darkness, is also being supplied to foreign customers. The United States Navy's developmental F/A-18E/F will extend the delivery pod's presence on the service's current strike jet.

In 1995, Electronic Combat was awarded a contract for the Intelligence and Electronic Warfare Common Sensor (IEWCS) program, which is intended to provide Army land combat elements with intelligence-gathering sensors and subsystems that help identify, locate and determine the intentions of enemy forces. This indefinite delivery and indefinite quantity production and integration program calls for initially manufacturing, procuring and integrating three sensor systems on various light and heavy air and ground platforms, including the High Mobility Multi-Wheeled Vehicle and the EH-60L helicopter.

The Electronic Combat business in recent years has broadened its customer base in the area of radar warning receivers (RWR). In addition to manufacturing the ALR-56 family of advanced, programmable RWRs used on United States Air Force and allied F-15 and F-16 jet fighters, Electronic Combat also supplies the ALQ-178 Rapport fully integrated countermeasures suite, as well as a new advanced jammer designated as ALQ-202 for both F-16 and F/A-18 fighter aircraft.

The Electronic Combat business also produces the Electronic Support Measures system for the United States Air Force's B-2 Stealth bomber; a day/night, adverse weather missions system for the MC-130H Combat Talon II aircraft and the central computer for the F-15 jet fighter.

Command, Control, Communications & Intelligence (C/3/I) and Reconnaissance. The C/3/I and Reconnaissance business focuses on meeting the nation's strategic and tactical requirements by offering systems integration, operations management and engineering services, post-deployment systems support, military satellite communication terminals, information processing and display hardware, information management software and secure tactical communications systems.

The C/3/I and Reconnaissance business is developing a core system for United States Air Force theater battle management, integrating operations and intelligence information systems into an automated C/3/I system for planning and executing air campaigns. This program, Theater Battle Management Core System (TBMCS), has ties to associated contracts within Tactical Systems for the Defense Message System and Global Transportation Network.

The C/3/I and Reconnaissance business has responsibility for defining the architecture of the United States Air Force's Spacelift Range System under the Range Standardization and Automation Phase IIA program. Using commercial or non-developmental products, C/3/I and Reconnaissance is to design, integrate and deliver systems to modernize the spacelift range assets over the next decade.

Another responsibility of the C/3/I and Reconnaissance business is modernizing the Global Positioning System (GPS) ground control software. C/3/I and Reconnaissance is developing software that United States Air Force satellite controllers will use to command and direct the advanced upgraded Block IIR constellation of satellites that are expected to be launched beginning in 1996. The business also supports the United States Air Force's Satellite Control Network (AFSCN) command and control segment, including the Command and Data Processing program, which has been engineered and is being maintained to permit AFSCN operators to launch and track satellites in orbit, and Engineering Services & Modifications, a program to implement AFSCN modernization.

The C/3/I and Reconnaissance business provides technical support and monitors orbiting space systems which are designed to alert the United States and its allies of potential attacks. The Space Defense Operations Center (SPADOC) allows the United States Space Command in Cheyenne Mountain to determine whether a United States space system in Earth orbit is in danger of colliding with another spacecraft or is threatened by a hostile object. This business also supplies the Rapid Execution and Combat Targeting (REACT) system, which standardizes the command and control system among various intercontinental ballistic missile (ICBM) forces and

permits rapid retargeting of on-alert missiles. It also provides operations, maintenance, technical and engineering support at the National Test Facility (NTF) at Falcon Air Force Base in Colorado Springs, Colorado. This contract requires the C/3/I and Reconnaissance business to operate, maintain and upgrade all simulation and test, data processing and communications systems at the NTF, where the Air Force conducts simulations vital to the nation's strategic defense.

In the undersea and shipboard area, the C/3/I and Reconnaissance business programs have been expanded in recent years to include shipboard navigation and combat control systems. Key programs in this area include the design, development and integration of the combat systems for the United States Navy's FFG-7 frigates, Canadian patrol frigates, the PFG-2 frigate for Taiwan, and Australian Adelaide-class frigates. The business also makes the Mk 92 and Mk 76 fire control systems, the AN/USQ-70 Advanced Display System and standard military computers, such as the AN/UYK-43 and UYK-44, for the United States Navy.

Also in undersea systems, the C/3/I and Reconnaissance business supplies antisubmarine warfare and combat control systems for submarines and surface ships, including the AN/BSY-1 combat system for the United States Navy's SSN 688-class attack submarines and portions of the AN/BSY-2 combat control system for the Navy's SSN 21 attack submarines. The business is responsible for the design, development and integration of the navigation system for the United States Navy's Trident Fleet Ballistic Missile submarines. The business performs modifications to the United States Navy's AN/BQQ-5E submarine sonar system for ballistic missile submarines, and is also under contract to develop a high-priority, next-generation, deployable antisubmarine warfare surveillance system for use in shallow water.

The C/3/I and Reconnaissance business has a contract to supply the United States Army's Command and Control Vehicle (C/2/V) with state of the art communications and computer equipment. The business is developing the communications element of the All-Source Analysis System, a tactical intelligence fusion system that will receive, process and display battlefield information to tactical commanders in near real time.

The C/3/I and Reconnaissance business also manufactures and produces high-performance intelligence collection and satellite communication systems for the United States Department of Defense (DoD). These systems for strategic and tactical operations include high data rate satellite communications, battlefield imagery dissemination and weapons targeting data links. Capabilities in this area include covert, anti-jam microwave communications, communication systems integration and support, image compression, and spread spectrum systems.

The reconnaissance systems produced by the C/3/I and Reconnaissance business utilize advanced electronic imaging, communications and information processing techniques to provide integrated tactical battlefield information and navigation and targeting capability in airborne platforms for the United States Air Force, Navy and Marines. These imaging products are a major component of the Advanced Tactical Air Reconnaissance System (ATARS) program for the United States Navy, the Long-Range Oblique Photography System (LOROPS), the F-30-50 tactical reconnaissance pod and a tactical reconnaissance system for German Tornado aircraft.

Among other activities, the C/3/I and Reconnaissance business manufactures and sells the commercial data and voice recorders mandated by the Federal Aviation Administration for commercial and general aviation aircraft.

Training & Simulation. The Training and Simulation business offers a range of training capabilities with modular training solutions and complete training curricula to fit a wide range of customer needs, from laser-based, force-on-force combat training to full-fidelity cockpit and weapon systems trainers, and from range training systems and instructor services to low-cost, computer-driven simulators that let soldiers, sailors and aircrews train interactively.

The Training and Simulation business is assisting the United States Army with a number of training initiatives, including the Close Combat Tactical Trainer (CCTT) program, the Advanced Distributed Simulation

and Training (ADST) program and Warfighters Simulation 2000. Through these programs, Training and Simulation is leveraging the Army's investment in its Simulation Networking (SIMNET) project to develop a computer-based capability to simulate vehicles, weapon systems and dismounted infantry on a virtual battlefield. The complementary Warfighters' Simulation 2000 is developing the architecture for an advanced command and control simulation capability that is intended to extend command post training exercises across all operational levels.

The Training and Simulation business also provides the United States Army and allied armed forces with computer-controlled target ranges for live-fire training, featuring the first moving targets in the Army inventory. The systems can be configured for use in infantry, armor, or helicopter gunship training. The family of laser-based training systems produced by Training and Simulation includes the Air-to-Ground Engagement System (AGES), the Precision Gunnery Training System (PGTS), Simulated Area Weapons Effects (SAWE), Precision Range Integrated Maneuver Exercise (PRIME), and Mobile Automated Instrumentation Suite (MAIS). These laser-based training systems are utilized in the training and evaluation of ground combat troops and military equipment for the United States and allied defense departments.

The Training and Simulation business' long-established program base in cockpit training systems includes the assessment of pilot training requirements for the United States Air Force's next-generation F-22 jet fighter, as well as supplying operational flight and weapons system trainers that simulate F-15 and F-15E jet aircraft avionics under combat conditions. It also supplies the United States Air Force Special Operations Forces Aircrew Training System (SOF-ATS).

The Training and Simulation business also operates and maintains the United States Navy's and Air Force's primary pilot training ranges and electronic warfare ranges, providing instructors for classroom training and supplying avionics and undersea simulators.

Tactical Weapons. The Tactical Weapons business is seeking to develop new technological approaches while continuing to modify proven technologies to enhance mission effectiveness and meet new requirements. The major program in this area, the Patriot Advanced Capability (PAC III) missile, formerly known as the Extended Range Interceptor (ERINT), is in the engineering and manufacturing development (EMD) phase with the United States Army Missile Command. PAC III, which replaces older, blast fragmentation technology with a kinetic energy, hit-to-kill interceptor to destroy incoming ballistic missiles, represents an important development in theater defense.

The Tactical Weapons business produces the Multiple Launch Rocket System (MLRS), a saturation artillery rocket system designed and manufactured to suppress enemy infantry, armor, fire support and air defenses. The MLRS has substantial markets internationally. Fired from the same MLRS launcher, the Army Tactical Missile System (ATACMS) provides a long-range, tactical missile. An upgrade to ATACMS, the Block IA, features a Global Positioning System (GPS) receiver and antenna that is intended to increase missile accuracy at longer ranges.

The Vertical Launch Antisubmarine Warfare Rocket (VLA) produced by the Tactical Weapons business provides United States Navy ships equipped with the Mk 41 vertical launch system with a quick-reaction, urgent-attack ASW missile.

For U.S. infantry forces, including the Marine Corps and Army, the Tactical Weapons business is developing the Predator and Multi-Purpose Individual Munition short-range antitank and bunker-busting weapon that features a man-portable fire-and-forget design.

The Tactical Weapons business is also involved in the Line-of-Sight Antitank (LOSAT) portion of the AAWS-H program, including LOSAT's kinetic energy missile. Additionally, Tactical Weapons' electro-optical and infrared (IR) sensors, advanced algorithms and processors are employed in a wide range of tactical weapons and guidance systems, and its IR sensors have been selected for the United States Army's Theater High-Altitude

Area Defense (THAAD) system, which is currently undergoing demonstration/validation flight tests to verify its design and performance.

Other guidance programs within the Tactical Weapons business include the Digital Scene Matching Area Correlation System (DSMAC) for Tomahawk cruise missile guidance and the Sidewinder air-to-air missile, including the AIM-9M and AIM-9P.

Systems Integration. The Systems Integration business integrates complex hardware and software systems for the United States DoD, a wide range of non-DoD government agencies and commercial customers.

The Systems Integration business is responsible for the Advanced Automation System (AAS) upgrade for the Federal Aviation Administration (FAA) that will be applied throughout United States airports. Under the restructured program, Systems Integration is to develop and install the Display System Replacement (DSR) for en route centers--the basic air traffic control system--and develop the Tower Control Computer Complex (TCCC) for airport towers. Also in air traffic management, Systems Integration is installing the state-of-the-art New En Route Centre air traffic control system in the United Kingdom.

For the United States Postal Service, the Systems Integration business supplies bar-code-based mail sorting systems and remote character recognition systems to improve postal materials handling and delivery. The business's postal automation expertise has been expanded to include the Advanced Facer Canceled System/Input Subsystem, Flats Sorter Module (FSM 1000), Integrated Retail Terminals, the Small Parcel and Bundle Sorter, and Self-Service Mailing Centers.

Another program, the Document Processing System (DPS) for the Internal Revenue Service, is being designed to image and store tax returns and correspondence, thereby streamlining the task of processing hundreds of millions of tax returns annually.

The Systems Integration business is involved with a number of programs that, while serving the United States DoD, are related to large information systems rather than weapon systems. For example, the Systems Integration business is under contract with the United States DoD to install a new electronic mail and messaging system that is to improve the ability of military and civilian organizations and personal users worldwide to communicate with one another. The Defense Message System-Government Open Systems Interconnection Profile (DMS-GOSIP) will replace the DoD's current organizational messaging system.

Two other Systems Integration programs for DoD agencies have wide applications. For the United States Army, Systems Integration is the prime contractor for the Sustaining Base Information Services (SBIS) program, which is being developed to comprehensively manage information and administrative processing for personnel, payroll, financial accounting and records management. Also, for the United States DoD, Systems Integration is developing the Global Transportation Network (GTN), a worldwide command and control system that will integrate data from a variety of diverse and widely distributed transportation systems to provide a real-time capability for centralized traffic management of all DoD materiel in times of both war and peace.

In the commercial transportation area, for the United States Department of Transportation and regional and state departments of transportation, Systems Integration is involved in a number of programs to improve surface transportation and to develop and implement advanced traveler information services and traffic management centers under a national Intelligent Transportation System initiative.

The Systems Integration business also includes the NEXRAD Doppler weather radar system for the National Oceanic and Atmospheric Administration. The business also produces the Medical Diagnostic Imaging System involving the application of high-volume data storage and retrieval technologies into the medical

marketplace for the United States DOD, the Veterans Administration, university medical centers or other private health care facilities.

Space. The Space business provides engineering services supporting mission control systems for NASA's manned and unmanned space flight, and develops and produces computers, scientific instruments, sensors, cameras and power systems for spacecraft.

The Space business performs Safety, Reliability, and Quality Assurance for NASA's Space Shuttle and International Space Station programs. The business is also responsible for designing, developing and integrating systems for the Space Shuttle's onboard hardware and flight control software, and is modernizing the Mission Systems Control center at Johnson Space Center in Houston.

In space science, the Space business is developing the Atmospheric Infrared Sounder (AIRS), a scientific instrument that will fly on NASA's Earth Observing System (EOS) platform in the next century. At NASA's Goddard Space Flight Center, the Space business is developing the computer system to store, archive and distribute data collected by the EOSDIS system.

Other. The Tactical Systems businesses engage in a number of classified programs that cannot be referred to specifically, but are included in the consolidated financial statements. The nature of and business risks associated with the classified programs do not differ materially from those other programs and products in which the Corporation participates.

Customers

Substantially all of the products and services of the Tactical Systems business are sold to agencies of the United States government, primarily to the DOD, to foreign government agencies or to prime contractors or subcontractors thereof. For the nine months ended December 31, 1995 and for the year ended March 31, 1995, approximately \$3.7 billion and \$4.3 billion, respectively, of Tactical Systems' sales were directly or indirectly attributable to United States and foreign government defense contracts, and approximately \$900 million and \$1.0 billion, respectively, were directly or indirectly attributable to United States and foreign government non-defense contracts. Total foreign sales (including foreign military sales) represented 18.0% and 18.6% of total sales for the nine months ended December 31, 1995 and for the year ended March 31, 1995, respectively.

Backlog

Tactical Systems' funded backlog at December 31, 1995, totaled approximately \$7.0 billion, compared with approximately \$6.4 billion at March 31, 1995. It is expected that 53% of the backlog at December 31, 1995, will be recorded as sales during calendar year 1996. At December 31, 1995, approximately \$6.1 billion of funded backlog was directly or indirectly for United States and foreign government defense contracts and approximately \$900 million of funded backlog was directly or indirectly for United States and foreign government non-defense contracts. Foreign customers accounted for approximately \$2.7 billion of the total backlog at December 31, 1995.

Competition

The Tactical Systems businesses face intense competition in all product and service areas. All products must be designed to meet or exceed rigid specifications and are subject to stringent testing procedures. Tactical Systems' sales depend largely upon the quality, design and pricing of Tactical Systems' products and services and the timeliness of deliveries. Most of Tactical Systems' business is obtained through the submission of competitive contract proposals.

Raw Materials and Seasonality

Tactical Systems has not experienced significant difficulties in its ability to obtain raw materials and other supplies needed in the production process of its products in recent years. None of Tactical Systems' businesses are considered to be seasonal.

Government Contracts

Tactical Systems' government contracts are normally for production, service or development. Such contracts are typically of the fixed-price or cost-type variety.

Fixed-price contracts may provide for a firm fixed-price or may be fixed-type incentive contracts. Under a firm fixed-price contract, the contractor agrees to perform for an agreed price and derives benefits from cost savings, but bears the entire risk of cost overruns. Under a fixed-price incentive contract, if actual costs incurred are less than estimated costs for the contract, the savings are apportioned between the government and contractor. However, if actual costs under such a contract exceed estimated costs, excess costs are apportioned between the government and contractor up to a ceiling. The contractor bears all costs that exceed the ceiling. Some firm fixed-price contracts and fixed-price incentive contracts also provide for price adjustments in the event inflation differs from specified measurement indices, or in the event performance exceeds specified objectives or schedules.

Cost-type contracts generally provide for reimbursement of the contractor's actual costs, to the extent such costs are allowable, and additional compensation in the form of a fixed, incentive or award fee. Under cost-sharing contracts, costs are apportioned between the government and contractor according to an agreed formula. Cost-type contracts contain cost ceilings and the contractor is not obligated to incur costs in excess of such ceilings.

All United States government contracts and subcontracts to which Tactical Systems is a party are subject to audit, various cost controls and standard provisions for termination at the convenience of the government. Multi-year government contracts and related orders are subject to cancellation if funds for contract performance for any subsequent year become unavailable. Upon termination other than for a contractor's default, the contractor is normally entitled to reimbursement for allowable costs, but not necessarily all costs, and to an allowance for the proportionate share of fees or earnings for the work completed. Foreign government contracts generally contain comparable provisions relating to termination for the convenience of the government.

Government contractors are subject to certain business risks peculiar to the defense industry. These risks include the ability of the government to unilaterally suspend Tactical Systems from receiving new government contracts pending resolution of alleged violations of procurement laws or regulations.

In addition, all government contractors are subject to risks associated with dependence on government appropriations, changes in government procurement policies, political environment, obtaining required government export licenses for international sales, uncertain cost factors related to technologically scarce skills and exotic components, the frequent need to bid on programs in advance of design completion (which may result in unforeseen technological difficulties and/or cost overruns), design complexity and rapid obsolescence, and the constant necessity for design improvement.

Environmental Matters

Tactical Systems' operations are subject to and affected by a variety of federal, state and local environmental protection laws and regulations. Tactical Systems is involved in environmental responses at certain of its facilities and at certain waste disposal sites not currently owned by Tactical Systems (third-party sites) where Tactical Systems has been designated a "potentially responsible party" (PRP) by the United States Environmental Protection Agency (EPA). At such third-party sites, the EPA or a state agency has identified the site as requiring removal or remedial action under the federal "Superfund" and other related federal or state laws governing the remediation of hazardous materials. Generally, PRPs that are ultimately determined to be "responsible parties" are strictly liable for site clean-ups and usually agree among themselves to share, on an allocated basis, in the costs and expenses for investigation and remediation of the hazardous materials. Under existing environmental laws, however, responsible parties are jointly and severally liable and, therefore, Tactical Systems is potentially liable for the full cost of funding such remediation. In the unlikely event that Tactical

Systems will be required to fund the entire cost of such remediation, the statutory framework provides that Tactical Systems may pursue rights of contribution from other PRPs.

At third-party sites, Tactical Systems continues to pursue a course of action designed to minimize and mitigate its potential liability through assessing the legal basis for its involvement, including an analysis of such factors as (i) the amount and nature of materials disposed of by Tactical Systems, (ii) the allocation process, if any, used to assign all costs to all involved parties and (iii) the scope of the response action that is or may reasonably be required. Tactical Systems also continues to pursue active participation in steering committees, consent orders and other appropriate and available avenues. Management of Tactical Systems believes that this approach should minimize Tactical Systems' proportionate share of liability at third-party sites where other PRPs share liability.

Patents and Licenses

Although the Tactical Systems business owns some patents and has filed applications for additional patents, it does not believe that its operations depend upon its patents. In addition, Tactical Systems' United States Government contracts generally license it to use patents owned by others. Similar provisions in the United States Government contracts awarded to other companies make it impossible for Tactical Systems to prevent the use by other companies of its patents in most domestic work.

Research and Development

Tactical Systems employs scientific, engineering and other personnel to improve its existing product lines and to develop new products and technologies in the same or related fields. The largest portion of this work is performed under specific United States Government contracts. At December 31, 1995, Tactical Systems employed approximately 11,700 engineers, of which approximately 5,200 devote all or part of their effort to Tactical Systems-sponsored research projects.

The amounts of research and development performed under customer-funded contracts and Tactical Systems-sponsored research projects, including bid and proposal costs, were as follows:

| | CUSTOMER- FUNDED | TACTICAL SYSTEMS- SPONSORED | TOTAL |
|--|---------------------|--------------------------------|-------|
| | ----- | ----- | ----- |
| | (IN MILLIONS) | | |

| | | | |
|--|---------|-------|---------|
| Nine months ended December 31, 1995..... | \$1,180 | \$174 | \$1,354 |
| Year ended March 31, 1995..... | \$1,630 | \$228 | \$1,858 |

Personnel

At December 31, 1995, Tactical Systems employed approximately 35,100 persons. A significant part of the operations of Tactical Systems is dependent upon professional, technical and engineering personnel whose tenure is not generally secured by employment contracts. Tactical Systems has agreements with labor organizations representing certain hourly employees.

Forward Looking Statements--Safe Harbor Provisions

This Current Report on Form 8-K contains statements, which, to the extent they are not recitations of historical fact, constitute "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All forward looking statements involve risks and uncertainties. The forward looking statements in this document are intended to be subject to the safe harbor protection provided by Sections 27A and 21E. For a discussion identifying some important factors that could cause actual results to vary materially from those anticipated in the forward looking statements see the Corporation's Securities and Exchange Commission filings, including but not limited to, the discussion of "Competition" and "Government Contracts" in this Current Report on Form 8-K, Management's Discussion and Analysis of Financial Condition and Results of Operations in Exhibits 99(a) and 99(b) of this Current Report

on Form 8-K and Notes 1, 2, 9, 10, 11, 13 and 14 to the Audited Consolidated Financial Statements of "Loral Corporation and Subsidiaries--Retained Business" included in Exhibit 99(a) to this Current Report on Form 8-K.

B. PROPERTIES OF LOCKHEED MARTIN TACTICAL SYSTEMS, INC.

Tactical Systems operates a number of plants and office facilities in the United States and abroad. At December 31, 1995, Tactical Systems' manufacturing, engineering, research, administrative, warehousing and sales facilities aggregated approximately 24.2 million square feet, of which 58% was owned by Tactical Systems and 42% was leased by Tactical Systems.

C. LOCKHEED MARTIN TACTICAL SYSTEMS, INC. LEGAL PROCEEDINGS

On July 7, 1995, Loral Corporation was served with a subpoena issued by the United States Attorney for the Eastern District of New York, seeking documents relating to a number of programs conducted at Loral Corporation's Defense Systems-East (Great Neck, New York) operations. These operations now form a part of Tactical Systems. Tactical Systems has been provided minimal information concerning the focus of the investigation, but it appears to arise from anonymous complaints provided to the Government by employees about testing and quality control matters. Tactical Systems is unaware of any such issues and is cooperating in the investigation.

D. AGREEMENT CONTAINING CONSENT ORDER WITH FEDERAL TRADE COMMISSION.

On April 18, 1996, in connection with the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act by the United States Federal Trade Commission (the "FTC"), the Corporation entered into an agreement containing consent order (the "Consent Agreement") with the FTC. The Consent Agreement obligates the Corporation to enter into a proposed consent order (the "Consent Order"), subject to a 60-day public notice and comment period and final approval of the Consent Order by the FTC. Under the Consent Agreement, the terms of the proposed Consent Order are applicable to the Corporation during the 60-day public review period and until the final Consent Order is entered or withdrawn.

The proposed Consent Order requires the Corporation to divest a systems engineering and technical assistance contract with the United States Federal Aviation Administration within six months of April 15, 1996. This contract is one of those acquired as part of the Loral Transaction. The proposed Consent Order also prohibits the Corporation from providing certain technical services, personnel, information or facilities relating to the Corporation's space businesses to Space Systems/Loral, Inc., a wholly owned subsidiary of Loral SpaceCom.

Further, the proposed Consent Order prohibits any director or officer of the Corporation who is also a director or officer of Loral SpaceCom (a "Common Director or Officer") from participating in any matters involving or having access to non-public information regarding the Corporation's space businesses, or providing non-public information relating to Space Systems/Loral, Inc. to the Corporation. Other than stock based compensation provided generally to directors, the Corporation may not compensate a Common Director or Officer in any manner based on the profitability or performance of the Corporation's space businesses. Pursuant to the proposed Consent Order, in the event that the Corporation's percentage ownership of the equity securities of Loral SpaceCom increases above 20% at any time, the Corporation must reduce that ownership interest to no more than 20%. Finally, the proposed Consent Order prohibits the Corporation's military aircraft and unmanned aerial vehicle businesses from access to certain non-public information that other of the Corporation's businesses receive from aircraft manufacturers and unmanned aerial vehicle manufacturers that compete with the Corporation and limits the Corporation's use of that information to matters in connection with which the information is provided.

The foregoing summary of the Consent Agreement is not intended to be a complete description thereof and is qualified in its entirety by the Consent Agreement and the proposed Consent Order, copies of which are included in the Agreement Containing Consent Order incorporated by reference in this Current Report on Form 8-K.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

A. FINANCIAL STATEMENTS OF BUSINESS ACQUIRED

The following Audited Consolidated Financial Statements of Loral Corporation and Subsidiaries--Retained Business as of March 31, 1995 and 1994, and for each of the three years then ended, and related Management's Discussion and Analysis of Results of Operations and Financial Condition are included as Exhibit 99(a) to this Current Report on Form 8-K:

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| Consolidated Statements of Operations--Years ended March 31, 1995, 1994 and 1993..... | A-8 |
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The following Unaudited Consolidated Financial Statements of Loral Corporation and Subsidiaries--Retained Business as of December 31, 1995 and March 31, 1995, and for the nine months ended December 31, 1995 and 1994, and related Management's Discussion and Analysis of Results of Operations and Financial Condition are included as Exhibit 99(b) to this Current Report on Form 8-K.

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B. PRO FORMA FINANCIAL INFORMATION

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

The following unaudited pro forma combined condensed financial statements have been prepared by the Corporation's management from the historical consolidated financial statements of the Corporation and of Tactical Systems (formerly Loral Corporation and Subsidiaries--Retained Business). The unaudited pro forma combined condensed statement of earnings reflects adjustments as if the Loral transaction had occurred on January 1, 1995. The unaudited pro forma combined condensed balance sheet reflects adjustments as if the Loral transaction had occurred on December 31, 1995. See "Note 1--Basis of Presentation." The unaudited pro forma adjustments described in the accompanying notes are based upon preliminary estimates and certain assumptions that management of the Corporation believes are reasonable in the circumstances.

The unaudited pro forma combined condensed financial statements are not necessarily indicative of financial position or results of operations that would have resulted if the Loral transaction had occurred on the applicable dates indicated above. Moreover, they are not intended to be indicative of future results of operations or financial position. The unaudited pro forma combined condensed financial statements should be read in conjunction with the historical consolidated financial statements of the Corporation and related notes thereto, incorporated in the Corporation's Annual Report on Form 10-K for the year ended December 31, 1995; and the historical financial statements of Tactical Systems and related notes thereto, included in this Current Report on Form 8-K.

UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF EARNINGS

| | FOR THE YEAR ENDED DECEMBER 31, 1995 | | | | |
|--|--------------------------------------|---------------------|------------------------|--------------------------|-----------------------|
| | LOCKHEED MARTIN | TACTICAL SYSTEMS | RECLASS- IFICATIONS | PRO FORMA ADJUSTMENTS | PRO FORMA COMBINED |
| | (IN MILLIONS, EXCEPT PER SHARE DATA) | | | | |
| Net sales..... | \$22,853 | \$6,179 | \$-- | \$(173)(e) | \$28,859 |
| Cost and expenses | | | | | |
| Cost of sales..... | 20,881 | 5,494 | 30 | (173)(e) 169 (f) | 26,401 |
| Merger related and consolidation expenses.. | 690 | -- | -- | -- | 690 |
| Earnings from operations... | 1,282 | 685 | (30) | (169) | 1,768 |
| Other income and expenses, net..... | 95 | 12 | -- | -- | 107 |
| Interest expense..... | 1,377 288 | 697 118 | (30) -- | (169) 482 (g) | 1,875 888 |
| Earnings before income taxes..... | 1,089 | 579 | (30) | (651) | 987 |
| Income tax expense..... | 407 | 220 | (30) | (178)(h) | 419 |
| Net earnings..... | \$ 682 | \$ 359 | \$-- | \$(473) | \$ 568 |
| Earnings per common share: | | | | | |
| Assuming no dilution..... | \$ 3.28 | N/A | | | \$ 2.69 |
| Assuming full dilution... | \$ 3.05 | N/A | | | \$ 2.55 |

See accompanying notes to unaudited pro forma combined condensed financial statements.

UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET

AS OF DECEMBER 31, 1995

| | LOCKHEED MARTIN | TACTICAL SYSTEMS | RECLASSIFICATIONS | PRO FORMA ADJUSTMENTS | PRO FORMA COMBINED |
|--|--------------------|---------------------|-------------------|--------------------------|-----------------------|
| (IN MILLIONS) | | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents..... | \$ 653 | \$ 227 | \$ -- | \$ -- | \$ 880 |
| Receivables..... | 3,876 | -- | 1,053 | -- | 4,929 |
| Inventories..... | 2,804 | -- | 445 | -- | 3,249 |
| Contracts in process.. | -- | 1,376 | (1,376) | -- | -- |
| Other current assets.. | 844 | 296 | (122) | -- | 1,018 |
| Total current assets..... | 8,177 | 1,899 | -- | -- | 10,076 |
| Property, plant and equipment..... | 3,165 | 1,287 | -- | -- | 4,452 |
| Intangible assets related to contracts and programs acquired.. | 1,808 | -- | -- | 700 (b) | 2,508 |
| Cost in excess of net assets acquired..... | 2,817 | 1,774 | -- | 5,725 (b) | 10,316 |
| Other assets..... | 1,681 | 621 | 158 | 467 (b)(c) | 2,927 |
| | <u>\$17,648</u> | <u>\$5,581</u> | <u>\$ 158</u> | <u>\$ 6,892</u> | <u>\$30,279</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | | |
| Current liabilities: | | | | | |
| Customer advances and amounts in excess of costs incurred..... | \$ 1,570 | \$ 446 | \$ -- | \$ -- | \$ 2,016 |
| Debt (short-term and current maturities).. | 722 | 1 | -- | 621 (d) | 1,344 |
| Other current liabilities..... | 2,999 | 750 | -- | 830 (b) | 4,579 |
| Total current liabilities..... | 5,291 | 1,197 | -- | 1,451 | 7,939 |
| Long-term debt..... | 3,010 | 1,869 | -- | 7,000 (d) | 11,879 |
| Post-retirement benefit liabilities..... | 1,778 | 603 | 165 | (107)(b) | 2,439 |
| Other liabilities..... | 1,136 | 196 | (7) | 264 (b) | 1,589 |
| Stockholders' Equity | | | | | |
| Series A preferred stock..... | 1,000 | -- | -- | -- | 1,000 |
| Common stock..... | 199 | -- | -- | -- | 199 |
| Additional paid-in-capital..... | 683 | -- | -- | -- | 683 |
| Retained earnings..... | 4,838 | -- | -- | -- | 4,838 |
| Unearned ESOP shares.. | (287) | -- | -- | -- | (287) |
| Net assets..... | -- | 1,716 | -- | (1,716)(b) | -- |
| Total stockholders' equity..... | 6,433 | 1,716 | -- | (1,716) | 6,433 |
| | <u>\$17,648</u> | <u>\$5,581</u> | <u>\$ 158</u> | <u>\$ 6,892</u> | <u>\$30,279</u> |

See accompanying notes to unaudited pro forma combined condensed financial statements.

NOTES TO UNAUDITED PRO FORMA

COMBINED CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited pro forma combined condensed statement of earnings presents the historical results of operations of the Corporation and Tactical Systems for the year ended December 31, 1995, with pro forma adjustments as if the Loral transaction had occurred on January 1, 1995. The unaudited pro forma combined condensed balance sheet presents the historical balance sheets of the Corporation and Tactical Systems as of December 31, 1995, with pro forma adjustments as if the Loral transaction had been consummated as of December 31, 1995, in a transaction accounted for as a purchase in accordance with generally accepted accounting principles.

Certain reclassifications have been made to the historical financial statements of the Corporation and Tactical Systems to conform to the unaudited pro forma combined condensed financial statement presentation.

2. PRO FORMA ADJUSTMENTS

The following adjustments are provided to reflect the Loral transaction on a pro forma basis (in millions):

- (a) To record the consideration assumed to be exchanged for Tactical Systems (financed by the issuance of debt):

| | |
|--|---------|
| Obligation for all of the Loral common shares..... | \$6,884 |
| Estimated transaction costs..... | 125 |
| | ----- |
| | \$7,009 |
| | ===== |

- (b) To adjust the assets and liabilities of Tactical Systems to their estimated fair values (such estimated fair values are subject to possible adjustment from future valuation analyses):

| | |
|---|---------|
| Net assets of Tactical Systems at December 31, 1995..... | \$1,716 |
| Fair value adjustments: | |
| Intangible assets related to contracts and programs acquired..... | 700 |
| Prepaid pension assets..... | (145) |
| Other current liabilities..... | (830) |
| Post-retirement benefit liabilities..... | 107 |
| Deferred income tax liabilities..... | (264) |
| Cost in excess of net assets acquired..... | 5,725 |
| | ----- |
| | \$7,009 |
| | ===== |

- (c) To record the Corporation's \$612 million investment in Loral SpaceCom financed by the issuance of debt.

- (d) To record the assumed issuance of debt to finance the Loral transaction:

| | |
|----------------------------------|---------|
| Long-term debt obligations..... | \$7,000 |
| Short-term debt obligations..... | 621 |
| | ----- |
| | \$7,621 |
| | ===== |

- (e) To eliminate intercompany sales and cost of sales. No adjustments have been made to eliminate the related intercompany profit in ending inventories and the net intercompany receivables and payables at December 31, 1995 as such amounts are not material.

- (f) To record the amortization of estimated intangible assets related to contracts and programs acquired (over an estimated life of 12 years) and estimated cost in excess of net assets acquired (over an estimated life of 40 years), net of the state income tax benefit on the net pro forma adjustments.
- (g) To record estimated interest expense (at a blended interest rate approximating 6.3%) resulting from the assumed issuance of debt obligations.
- (h) To record the federal income tax effect, using a 35% statutory rate, on the net pro forma adjustments.

The accompanying unaudited pro forma combined condensed financial statements do not include the effects of any estimated transition or restructuring costs which may be incurred in connection with integrating the operations of Tactical Systems into the Corporation. It is not feasible at this time to estimate these costs. Similarly, no effects for changes in costs related to Tactical Systems employee pension and post-retirement benefits have been included as such changes cannot be estimated at this time.

The unaudited pro forma combined condensed statement of earnings does not reflect any net cost savings or economies of scale that management believes would have been achieved had the Loral transaction occurred on January 1, 1995.

3. COMPUTATION OF PRO FORMA EARNINGS PER SHARE

(In millions, except per share data)

FOR THE YEAR ENDED
DECEMBER 31, 1995

| | |
|--|--------|
| Assuming No Dilution | |
| Net earnings..... | \$ 568 |
| Less preferred stock dividends..... | 60 |
| | ----- |
| Net earnings attributable to common stock..... | \$ 508 |
| | ===== |
| Weighted average number of common shares outstanding..... | 189 |
| | ===== |
| | \$2.69 |
| | ===== |
| Assuming Full Dilution | |
| Net earnings..... | \$ 568 |
| | ===== |
| Weighted average number of common shares outstanding..... | 189 |
| Assumed conversion of Series A Preferred Stock..... | 29 |
| Dilutive effect of stock options (Treasury stock method)..... | 5 |
| | ----- |
| | 223 |
| | ===== |
| | \$2.55 |
| | ===== |

C. EXHIBITS

| EXHIBIT NO. ----- | DESCRIPTION ----- |
|----------------------|--|
| 99(a) | Audited Consolidated Financial Statements of Loral Corporation and Subsidiaries--Retained Business as of March 31, 1995 and 1994, and for each of the three years then ended, and related Management's Discussion and Analysis of Results of Operations and Financial Condition. |
| 99(b) | Unaudited Condensed Consolidated Financial Statements of Loral Corporation and Subsidiaries--Retained Business as of December 31, 1995 and March 31, 1995, and for the nine months ended December 31, 1995 and 1994, and related Management's Discussion and Analysis of Results of Operations and Financial Condition. |
| 99(c) | Revolving Credit Agreement (364 day), dated as of April 15, 1996, by and among the Corporation, LAC Acquisition Corporation, the Banks parties thereto, Morgan Guaranty Trust Company of New York, as Documentation Agent, and Bank of America National Trust and Savings Association, as Administrative Agent, incorporated by reference herein from Amendment No. 10 to the Schedule 14D-1 filed by the Corporation with the Securities and Exchange Commission (the "Commission") on April 19, 1996. |
| 99(d) | Revolving Credit Agreement (5 year), dated as of April 15, 1996, by and among the Corporation, LAC Acquisition Corporation, the Banks parties thereto, Morgan Guaranty Trust Company of New York, as Documentation Agent, and Bank of America National Trust and Savings Association, as Administrative Agent, incorporated by reference herein from Amendment No. 10 to the Schedule 14D-1 filed by the Corporation with the Commission on April 19, 1996. |
| 99(e) | Agreement and Plan of Merger dated as of January 7, 1996, by and among Loral Corporation, Lockheed Martin Corporation and LAC Acquisition Corporation, incorporated by reference herein from the Schedule 14D-1 in respect of Loral Corporation filed by the Corporation with the Commission on January 12, 1996. |
| 99(f) | Letter Amendment dated as of April 15, 1996, to the Agreement and Plan of Merger dated as of January 7, 1996, by and among Loral Corporation, Lockheed Martin Corporation and LAC Acquisition Corporation, incorporated by reference herein from Amendment No. 10 to the Schedule 14D-1 in respect of Loral Corporation filed by the Corporation with the Commission on April 19, 1996. |
| 99(g) | Restructuring, Financing and Distribution Agreement dated as of January 7, 1996, by and among Loral Corporation, Loral Aerospace Holdings, Inc., Loral Aerospace Corp., Loral General Partner Inc., Loral Globalstar, L.P., Loral Globalstar Limited, Loral Telecommunications Acquisition, Inc. (to be renamed "Loral Space & Communications Ltd.") and Lockheed Martin Corporation, incorporated by reference herein from the Schedule 14D-1 in respect of Loral Corporation filed by the Corporation with the Commission on January 12, 1996. |
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| 99(i) | Agreement Containing Consent Order entered into between Lockheed Martin Corporation and the Federal Trade Commission on April 15, 1996, incorporated by reference herein from Amendment No. 11 to the Schedule 14D-1 in respect of Loral Corporation filed by the Corporation with the Commission on April 22, 1996. |
| 99(j) | Consent of Coopers & Lybrand L.L.P. |

EXHIBIT NO.

DESCRIPTION

- 99(k)(i) Restated Certificate of Incorporation of Tactical Systems.
- (ii) Certificate of Merger dated April 30, 1996 of LAC Acquisition Corporation into Tactical Systems.
- 99(l) Bylaws of Tactical Systems, incorporated by reference herein from the Annual Report on Form 10-K of Loral Corporation (now known as Tactical Systems) for the year ended March 31, 1994.

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED HEREUNTO DULY AUTHORIZED.

Lockheed Martin Corporation

/s/ Robert E. Rulon

By: _____
ROBERT E. RULON VICE PRESIDENT AND
CONTROLLER

1 May 1996

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LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

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LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

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

YEAR ENDED MARCH 31, 1995

BUSINESS ENVIRONMENT

The Company's core business areas are electronic combat, training and simulation, tactical weapons, C/3/I/reconnaissance and systems integration. The decline in the U.S. defense budget since the mid 1980s has resulted in program delays, cancellations and scope reductions for defense contractors generally. While the reductions in spending have lessened, there can be no assurance that the U.S. defense budget for 1996 will increase, especially in the procurement budget, or reflect a decline versus 1995. The Company's business areas focus primarily on U.S. and allied essential defense requirements. Management believes that to the extent a higher proportion of available funds will be allocated to the improvement of existing weapons systems and electronics on military platforms, rather than to new program starts, the Company is likely to benefit from its substantial incumbency in existing weapons systems and its experience in systems upgrades. The Company also believes its range of programs and systems are well suited for, and provide growth opportunities in, the international market place. In addition, the Company has a diverse base of programs, none of which is expected to account for more than 6% of fiscal 1996 revenues. In light of these factors, management believes the Company's program base is better suited for the current defense spending environment than those contractors with significant dependence on new program starts or a less diverse program base.

In addition, the areas of the Company's expertise provide opportunities to selectively apply its proprietary technologies to non-military applications; primary examples include systems integration programs for civilian agencies such as the FAA, the U.S. Postal Service and the U.S. Treasury Department.

RESULTS OF OPERATIONS

In fiscal 1993 and 1994, major acquisitions made by the Company significantly affected results of operations. The acquisitions have been accounted for as purchases and, as such, the results of operations are included from the respective effective dates of acquisitions. (See Note 3 to Consolidated Financial Statements.)

Effective January 1, 1994, the Company, through Loral Federal Systems Company ("LFS"), acquired substantially all the assets and liabilities of the Federal Systems Company, a division of International Business Machines Corporation ("IBM"). LFS, headquartered in Bethesda, Maryland, is a leading systems integrator and supplier of advanced information technology products and services to defense and non-defense government agencies worldwide. Historical operating results of Federal Systems Company for its fiscal year ended December 31, 1993 include sales of \$2.292 billion, operating income of \$117.5 million, funded backlog at December 31, 1993 of \$3.215 billion and approximately 10,000 employees.

On August 31, 1992, the Company, through Loral Vought Systems Corporation ("LVS"), acquired the missile business of LTV Aerospace and Defense Company. LVS, headquartered in Dallas, Texas, designs and manufactures missile systems primarily for the U.S. Army. Historical operating results of the missile business for its fiscal year ended December 31, 1991 include sales of \$750.1 million, operating income of \$36.2 million, funded backlog at August 31, 1992 of \$1.134 billion and approximately 4,000 employees.

On May 5, 1995, the Company acquired the Defense Systems operations of Unisys Corporation. Unisys Defense Systems, headquartered in McLean, Virginia, is a leading systems integrator and software developer for defense and non-defense government agencies worldwide, as well as a supplier of electronic countermeasures, navigation and communication subsystems for surface ships and submarines. Historical operating results of Unisys Defense Systems for its fiscal year ended December 31, 1994 include sales of \$1.431 billion, operating income of \$157.1 million, funded backlog at December 31, 1994 of \$1.098 billion and approximately 8,600

employees. The acquisition will be accounted for as a purchase and, accordingly, will impact operations commencing in fiscal 1996. (See Note 14 to Consolidated Financial Statements.)

Fiscal Year Ended March 31, 1995 Compared with Fiscal Year Ended March 31, 1994

During fiscal 1995, sales increased to \$5.484 billion from \$4.009 billion in the prior year. Income increased to \$296.2 million compared with \$231.8 million in the prior year. The results of operations of LFS contributed \$46.4 million to the current year's earnings compared with \$7.2 million in the prior year.

The sales increase was attributable to the sales of LFS business divisions which, including \$605.3 million of sales relating to new business awards subsequent to the acquisition, contributed \$1.810 billion to the increase. Sales also includes higher volume of \$38.5 million for ALR-56 radar warning systems, \$19.6 million for foreign F-15 flight simulators and \$17.9 million for the Atmospheric Infrared Sounder (AIRS) that will fly on NASA's Earth Observing System platform; offset by lower volume of \$62.9 million for the Multiple Launch Rocket System (MLRS), \$50.2 million for the F/A-18 Forward-Looking Infrared (FLIR) targeting and weapon delivery system, \$37.0 million for gyro-optic assemblies for Maverick missiles, \$33.9 million for the Automated Remote Tracking Station (ARTS) and \$33.7 million for the Digital Scene Matching Area Correlation (DSMAC) guidance system. The Company has a diverse base of programs and the change in sales from period to period includes increases and decreases on a variety of programs which individually are not significant to the overall sales change. The Company believes the increases and decreases for individual programs noted above do not necessarily represent trends of future sales contributions, except for the gyro-optic assemblies for Maverick missiles and ARTS programs which have been substantially completed.

Operating income increased to \$564.5 million from \$401.0 million in the prior year. Operating income of the acquired LFS business increased to \$179.3 million from \$21.5 million in the prior year, included from the January 1, 1994 effective date of acquisition. Operating income as a percentage of sales increased to 10.3% in fiscal 1995 from 10.0% in fiscal 1994. However, excluding the effect of the acquisition of LFS, operating income as a percentage of sales increased to 12.3% in fiscal 1995 from 11.0% in fiscal 1994, due primarily to net improved margins as a result of sales mix and operating efficiencies particularly for the MLRS and Army Tactical Missile System (ATACMS) programs, a higher pension credit and lower postretirement health care and life insurance costs due to various plan amendments (See Note 10 to Consolidated Financial Statements). Operating income for the MLRS and ATACMS programs improved by \$13.8 million primarily due to program performance and cost control measures implemented in the current and prior years.

Interest expense, net of interest and investment income, increased to \$86.9 million from \$30.7 million in the prior year, primarily due to the full-year impact of debt incurred to finance the acquisition of LFS. Interest expense due to the LFS acquisition was \$100.6 million in fiscal 1995 as compared with \$9.5 million in fiscal 1994. This increase includes the effect of refinancing a portion of the acquisition debt in June 1994 and the increase in interest rates during the year affecting the Company's commercial paper. The \$34.9 million decrease in interest expense, net of the LFS increase, is primarily due to strong cash flow used to repay debt. The Company's Free Cash Flow (net cash from operating activities, less net capital expenditures, plus proceeds of stock purchases by employee benefit plans and exercises of stock options) was \$573.0 million for the twelve months ended March 31, 1995 and \$283.4 million for the twelve months ended March 31, 1994.

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 was signed into law, including a provision that increased the Federal corporate income tax rate by 1%, to 35%, effective January 1, 1993. In fiscal 1994, this increase was partially offset by the benefit resulting from revaluing deferred tax assets at the higher rate. As a result, the Company's effective tax rate increased to 38.0% in fiscal 1995 from 37.4% in the prior year. (See Note 7 to Consolidated Financial Statements.)

Fiscal Year Ended March 31, 1994 Compared with Fiscal Year Ended March 31, 1993

During fiscal 1994, sales increased to \$4.009 billion from \$3.335 billion in the prior year. Income increased to \$231.8 million compared with \$164.3 million in the prior year, before an extraordinary item and the

cumulative effect of adopting SFAS 106. The results of the acquired LFS and LVS businesses contributed \$75.5 million to fiscal 1994 earnings compared to \$17.2 million contributed by LVS in the prior year.

The sales increase was attributable to the sales of the acquired LFS and LVS businesses which, including \$167.8 million of sales relating to new business awards subsequent to the acquisitions, contributed \$796.2 million to the increase. Sales also includes higher volume of \$42.5 million for the Vertical Launch Antisubmarine Rocket (VLA) and \$39.8 million for ALR-56M radar warning systems; offset by lower volume of \$42.5 million for Simulated Area Weapons Effect (SAWE) training system, \$41.7 million for Sidewinder air-to-air missiles, \$39.9 million for ALQ-178 radar warning and electronic countermeasures systems for foreign F-16 aircraft and \$39.8 million for the AN/BSY-2 combat control system for the U.S. Navy's SSN-21 attack submarine. The Company has a diverse base of programs and the change in sales from period to period includes increases and decreases on a variety of programs which individually are not significant to the overall sales change.

Operating income increased to \$401.0 million from \$295.4 million in the prior year. Operating income of the acquired LFS and LVS businesses increased to \$143.5 million from \$37.8 million in the prior year for LVS. Operating income as a percentage of sales increased to 10.0% in fiscal 1994 from 8.9% in fiscal 1993, due primarily to net improved margins of the acquired LVS business, the full-year impact of lower pension costs resulting from acquired pension plans and lower postretirement health care and life insurance costs due to various plan amendments (see Note 10 to Consolidated Financial Statements), offset by lower margins of the acquired LFS business. Excluding the effect of the acquisitions of LFS and LVS, operating income, as a percentage of sales, increased to 9.6% in fiscal 1994 from 9.2% in fiscal 1993.

After the full-year impact of debt incurred as a result of the acquisition of LVS and interest expense from the effective date of acquisition of LFS, interest expense, net of interest and investment income, increased to \$30.7 million from \$30.2 million in the prior year. The increase of only \$0.5 million in net interest expense despite the increase in acquisition debt is primarily due to the benefits of strong Free Cash Flow and the benefit of a series of debt reshaping steps which reduced interest expense by approximately \$8.5 million. The Company's Free Cash Flow was \$283.4 million for the twelve months ended March 31, 1994 and \$229.0 million for the twelve months ended March 31, 1993.

As a result of the early redemption of certain long-term debt issues and the cancellation of an existing credit facility, the Company recorded in fiscal 1993 an extraordinary charge of \$28.2 million pre-tax, \$17.8 million after-tax. The extraordinary charge consisted of redemption premiums and the write-off of unamortized discounts and financing costs.

As a result of the tax rate increase in the Omnibus Budget Reconciliation Act of 1993, the Company's effective tax rate increased to 37.4% in fiscal 1994 from 37.1% in the prior year. (See Note 7 to Consolidated Financial Statements.)

The minority interest charge was eliminated due to the Company's acquisition, effective June 1, 1992, of the minority partners' interest in Loral Aerospace Holdings, Inc. ("LAH"). (See Note 3 to Consolidated Financial Statements.)

Effective April 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). As a result of adopting SFAS 106 in 1993, the Company recorded charges for the cumulative effect of the accounting change of \$323.7 million pre-tax, \$226.6 million after-tax. (See Note 10 to Consolidated Financial Statements.)

FINANCIAL CONDITION AND LIQUIDITY

Cash Provided and Used

Net Cash Provided by Operating Activities: Cash provided by operating activities was \$604.0 million in fiscal 1995, an increase of \$244.9 million or 68% over fiscal 1994. The increase was due primarily to higher

earnings including adjustments for non-cash items in fiscal 1995, as net income increased to \$296.2 million from \$231.8 million, depreciation and amortization increased to \$250.1 million from \$178.2 million and deferred income taxes increased to \$111.8 million from \$27.5 million. Earnings after adjustments for non-cash items provided \$658.1 million in fiscal 1995 compared with \$437.5 million in fiscal 1994, offset by changes in operating assets and liabilities, which used \$54.1 million in fiscal 1995 compared with \$78.4 million in fiscal 1994.

The Company's current ratio improved slightly to 1.5:1 at March 31, 1995 from 1.4:1 at March 31, 1994 as the Free Cash Flow of \$573.0 million was applied primarily to reduce debt and seller financing for the LFS acquisition. Debt and seller financing repayments in fiscal 1995 totalled \$531.9 million of which \$224.3 million was classified in current liabilities at March 31, 1994. Based on prior historical financial statements, the May 1995 acquisition of Unisys Defense Systems is not expected to have a significant impact on the current ratio.

Net Cash Used in Investing Activities: Cash used in investing activities decreased to \$89.0 million in fiscal 1995 from \$1.502 billion in fiscal 1994, primarily due to the acquisition cost, net of cash acquired, of \$1.401 billion for LFS in fiscal 1994. Capital expenditures in fiscal 1995 were \$122.7 million, compared with \$103.0 million in fiscal 1994. Capital expenditures were primarily for manufacturing and test equipment, facility expansion and renovation. Disposition of property, plant and equipment in fiscal 1995 was \$37.5 million, compared with \$6.5 million in fiscal 1994, primarily as a result of facility relocation and reduction of fixed asset levels at certain locations.

Net Cash (Used) Provided in Financing Activities: Cash used in financing activities was \$627.8 million in fiscal 1995, compared with cash provided from financing activities of \$1.264 billion in fiscal 1994. As a result of strong Free Cash Flow during fiscal 1995, debt was reduced by \$531.9 million. Accordingly, the Company's debt (net of cash) to net assets ratio decreased to .83:1 at March 31, 1995 from 1.28:1 at March 31, 1994.

The LFS purchase price was financed initially through cash on hand and commercial paper borrowings. As originally planned, in order to fix interest costs and lengthen maturities, in June 1994, the Company issued \$250 million 7 5/8% Senior Notes due 2004 and \$400 million 8 3/8% Senior Debentures due 2024, under a shelf registration statement which was increased to \$800 million in May 1994. The proceeds were used to reduce the Company's outstanding commercial paper borrowings, including the \$173.5 million, which was classified as current portion of debt at March 31, 1994.

The Unisys Defense Systems purchase price was financed through additional commercial paper borrowings which were supported by the \$1.2 billion revolving credit facility. (See Notes 6 and 14 to Consolidated Financial Statements). The Company expects that, based on prior historical performance and current projections, Unisys Defense Systems will make a positive contribution to the Company's Free Cash Flow.

Financial Instruments

The Company uses off balance sheet derivative financial instruments, including foreign currency forward contracts to minimize foreign currency risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

The majority of the Company's foreign currency forward contracts are entered into at the direction of the customer pursuant to contractual requirements. Any gain or loss on the hedges accrues for the benefit or detriment of the customer and does not expose the Company to risk.

At March 31, 1995, the Company had open forward contracts to sell approximately 41.5 million Pound Sterling to minimize the effect of currency exposure on future cash payments from foreign operations. Gains and

losses on foreign currency forward contracts are recorded when the transactions being hedged are realized. For the year ended March 31, 1995, gains and losses on these contracts were not material. Other forward contracts are not material.

Backlog

The Company's funded backlog at March 31, 1995, totalled \$6.367 billion, compared with \$6.548 billion at March 31, 1994. It is expected that 52% of the March 31, 1995 backlog will be recorded as sales in fiscal 1996. Approximately 87% of the total backlog was directly or indirectly for U.S. and foreign government defense contracts; approximately 11% of the total backlog was directly or indirectly for U.S. and foreign government non-defense contracts. Foreign customers account for about 39% of the total backlog. New orders in fiscal 1995 totalled \$5.303 billion, compared with \$3.467 billion in fiscal 1994, primarily due to the results of LFS; new orders increased by 13% after factoring in LFS for the full prior year.

Research and Development

Company-sponsored research and development, including bid and proposal costs, increased to \$228.0 million from \$172.6 million the prior year. In addition, customer-funded research and development was \$1.630 billion for fiscal 1995, compared with \$844.0 million for the prior year. The increase in customer-funded research and development is due primarily to the results of LFS.

Environmental Matters

Management is continually assessing its obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost to be incurred by the Company in order to comply with these laws, based upon available internal and external assessments, the Company believes that even without considering potential insurance recoveries, if any, there are no environmental loss contingencies that, individually or in the aggregate, are material. The Company accrues for these contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company has been named a Potentially Responsible Party ("PRP") at a number of sites. In several of these situations the Company acquired the site pursuant to a purchase agreement which provided that the seller would retain liability for environmental remediation and related costs arising from occurrences prior to the sale. In other situations the Company is party to an interim or final allocation plan that has been accepted by other PRPs whose size and current financial condition make it probable that they will be able to pay the environmental costs apportioned to them. The Company believes that it has adequately accrued for future expenditures in connection with environmental matters and that such expenditures will not have a material adverse effect on its financial condition or results of operations.

Inflation

The effect of inflation on the Company's sales and earnings is minimal. Although a majority of the Company's sales are made under long-term contracts, the selling prices of such contracts, established for deliveries in the future, generally reflect estimated costs to be incurred in these future periods. In addition, some contracts provide for price adjustments through escalation clauses.

Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), which is required to be adopted by fiscal 1997. SFAS 121 establishes the accounting standards for the impairment of long-lived assets, certain intangible assets and cost in excess of net assets acquired to be held and used, and for long-lived assets and certain intangible assets to be disposed of. The Company is currently evaluating the impact, if any, of SFAS 121.

REPORT OF INDEPENDENT AUDITORS

To the Shareholders and Board of Directors of
Loral Corporation:

We have audited the accompanying consolidated balance sheets of Loral Corporation and Subsidiaries--Retained Business (the "Company") as of March 31, 1995 and 1994 and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Loral Corporation and Subsidiaries--Retained Business as of March 31, 1995 and 1994, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 1995 in conformity with generally accepted accounting principles.

As discussed in Notes 7 and 10 to the consolidated financial statements, in 1993 the Company changed its methods of accounting for income taxes and postretirement benefits other than pensions.

/s/ Coopers & Lybrand L.L.P.

1301 Avenue of the Americas
New York, New York 10019
May 11, 1995 (except as to the information presented
in Notes 1 and 14, for which the date is January 12, 1996)

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

CONSOLIDATED STATEMENTS OF OPERATIONS

| | FOR THE YEARS ENDED MARCH 31, | | |
|---|-------------------------------|-------------|-------------|
| | 1995 | 1994 | 1993 |
| | (IN THOUSANDS) | | |
| Sales..... | \$5,484,401 | \$4,008,733 | \$3,335,403 |
| Costs and expenses..... | 4,919,857 | 3,607,765 | 3,040,050 |
| Operating income..... | 564,544 | 400,968 | 295,353 |
| Interest and investment income..... | 9,484 | 8,275 | 12,422 |
| Interest expense..... | 96,405 | 39,016 | 42,583 |
| Income before income taxes and minority interest..... | 477,623 | 370,227 | 265,192 |
| Income taxes..... | 181,456 | 138,420 | 98,314 |
| Income before minority interest..... | 296,167 | 231,807 | 166,878 |
| Minority interest..... | | | (2,586) |
| Income before extraordinary item and cumulative effect of changes in accounting..... | 296,167 | 231,807 | 164,292 |
| Extraordinary item-loss on extinguishment of debt, net of income taxes of \$10,440..... | | | (17,776) |
| Cumulative effect of changes in accounting, net of income taxes of \$97,122..... | | | (226,618) |
| Net income (loss)..... | \$ 296,167 | \$ 231,807 | \$ (80,102) |

See notes to consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

CONSOLIDATED BALANCE SHEETS

| | MARCH 31, | |
|--|----------------|-------------|
| | 1995 | 1994 |
| | (IN THOUSANDS) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 125,674 | \$ 238,498 |
| Contracts in process..... | 1,147,233 | 1,328,338 |
| Deferred income taxes..... | 138,374 | 104,063 |
| Other current assets..... | 141,846 | 173,714 |
| | ----- | ----- |
| Total current assets..... | 1,553,127 | 1,844,613 |
| | ----- | ----- |
| Property, plant and equipment..... | 1,899,804 | 1,926,978 |
| Less, accumulated depreciation and amortization..... | 758,279 | 620,554 |
| | ----- | ----- |
| | 1,141,525 | 1,306,424 |
| | ----- | ----- |
| Cost in excess of net assets acquired, less amortization..... | 1,265,932 | 1,342,872 |
| Deferred income taxes..... | 6,486 | 42,100 |
| Prepaid pension cost and other assets..... | 591,217 | 480,907 |
| | ----- | ----- |
| | \$4,558,287 | \$5,016,916 |
| | ===== | ===== |
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Current portion of debt..... | \$ 958 | \$ 173,928 |
| Accounts payable, trade..... | 169,743 | 248,657 |
| Billings and estimated earnings in excess of cost..... | 313,379 | 350,648 |
| Accrued employment costs..... | 235,260 | 201,238 |
| Income taxes..... | 80,642 | 77,815 |
| Other current liabilities..... | 216,585 | 237,881 |
| | ----- | ----- |
| Total current liabilities..... | 1,016,567 | 1,290,167 |
| | ----- | ----- |
| Postretirement benefits..... | 611,911 | 639,266 |
| Other liabilities..... | 178,798 | 241,368 |
| Long-term debt..... | 1,315,530 | 1,624,061 |
| Commitments and contingencies (Notes 9 and 13) | | |
| Net assets..... | 1,435,481 | 1,222,054 |
| | ----- | ----- |
| | \$4,558,287 | \$5,016,916 |
| | ===== | ===== |

See notes to consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

| | FOR THE YEARS ENDED MARCH 31, | | |
|---|-------------------------------|-------------|-------------|
| | 1995 | 1994 | 1993 |
| | (IN THOUSANDS) | | |
| Balance, beginning of year..... | \$1,222,054 | \$1,050,836 | \$ 780,178 |
| Shares issued: | | | |
| Exercise of stock options and related tax benefits, net of shares tendered..... | 11,614 | 9,392 | 23,714 |
| Employee benefit plans..... | 42,698 | 11,398 | 15,169 |
| Restricted Stock Purchase Plan..... | | (1) | 38 |
| Conversion of subordinated debentures.... | | | 70,284 |
| Acquisition of minority interest in LAH.. | | | 195,179 |
| Purchase of treasury stock..... | | | (3,103) |
| Amortization of restricted options..... | 3,351 | 3,246 | 10,772 |
| Shares earned under Restricted Stock Purchase Plan..... | 5,655 | 3,919 | 7,827 |
| Net income (loss)..... | 296,167 | 231,807 | (80,102) |
| Dividends..... | (49,663) | (45,183) | (37,361) |
| Changes in net assets applicable to Space and Communications Operations..... | (100,580) | (25,774) | 68,161 |
| Additional minimum pension liability..... | 5,085 | (16,049) | |
| Foreign currency translation adjustment.... | (900) | (1,537) | 80 |
| Balance, end of year..... | \$1,435,481 | \$1,222,054 | \$1,050,836 |

See notes to consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | FOR THE YEARS ENDED MARCH 31, | | |
|--|-------------------------------|-------------|-------------|
| | 1995 | 1994 | 1993 |
| | (IN THOUSANDS) | | |
| Operating activities: | | | |
| Net income (loss)..... | \$ 296,167 | \$ 231,807 | \$ (80,102) |
| Extraordinary item..... | | | 17,776 |
| Cumulative effect of changes in accounting..... | | | 226,618 |
| Depreciation and amortization..... | 250,122 | 178,184 | 154,005 |
| Deferred income taxes..... | 111,769 | 27,500 | 14,818 |
| Minority interest..... | | | 2,586 |
| Changes in operating assets and liabilities: | | | |
| Contracts in process..... | 30,966 | 31,850 | (29,963) |
| Other current assets..... | 31,868 | (56,713) | (39,368) |
| Prepaid pension cost and other assets..... | (40,956) | (22,767) | (38,444) |
| Accounts payable and accrued liabilities.. | (59,703) | (21,247) | 1,539 |
| Income taxes..... | 2,827 | 17,375 | 27,063 |
| Postretirement benefits and other liabilities..... | (23,279) | (26,366) | 23,392 |
| Other..... | 4,185 | (562) | (914) |
| Net cash from operating activities..... | 603,966 | 359,061 | 279,006 |
| Investing activities: | | | |
| Acquisition of businesses, net of cash acquired..... | (3,750) | (1,426,103) | (252,976) |
| Proceeds from note receivable..... | | 20,935 | |
| Investment in other assets..... | | | (15,265) |
| Capital expenditures..... | (122,733) | (102,952) | (97,268) |
| Disposition of property, plant and equipment..... | 37,482 | 6,492 | 8,309 |
| | (89,001) | (1,501,628) | (357,200) |
| Financing activities: | | | |
| Net (payments) borrowings under revolving credit facilities and commercial paper... (1,131,737) | 808,018 | 115,531 | |
| Proceeds from borrowings..... | 651,273 | 503,534 | 120,803 |
| Payments of debt..... | (1,037) | (47,578) | (211,201) |
| Distributions to Space and Communications Operations..... | (100,580) | (25,774) | (3,189) |
| Dividends paid..... | (49,663) | (45,183) | (37,361) |
| Proceeds from issuance of common stock... 54,312 | 20,789 | 38,921 | |
| Purchase of treasury stock..... | | | (3,103) |
| Seller financing in connection with acquisition of business..... | (50,357) | 50,357 | |
| Other..... | | | (16,418) |
| | (627,789) | 1,264,163 | 3,983 |
| Net (decrease) increase in cash and cash equivalents..... | (112,824) | 121,596 | (74,211) |
| Cash and cash equivalents, beginning of year..... | 238,498 | 116,902 | 191,113 |
| Cash and cash equivalents, end of year..... | \$ 125,674 | \$ 238,498 | \$ 116,902 |
| Supplemental information: | | | |
| Interest paid during the year..... | \$ 93,385 | \$ 46,342 | \$ 48,729 |
| Income taxes paid during the year, net of refunds..... | \$ 62,563 | \$ 73,729 | \$ 42,549 |

See Notes 2 and 3 for additional information.

See notes to consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

On January 7, 1996, Loral Corporation ("Loral") and Lockheed Martin Corporation ("Lockheed Martin") entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") among Loral, Lockheed Martin and LAC Acquisition Corporation ("LAC"), a wholly-owned subsidiary of Lockheed Martin, providing for the transactions that will result in Loral becoming a subsidiary of Lockheed Martin and the spin-off by Loral of its direct and indirect interests in Globalstar, L.P. ("Globalstar"), Space Systems/Loral, Inc. ("SS/L") and K & F Industries, Inc. ("K & F"), to Loral Corporation's shareholders (the "Space & Communications Operations") (See Note 14).

The accompanying consolidated financial statements reflect the portion of Loral that will become a subsidiary of Lockheed Martin (the "Retained Business" or the "Company"). However, the financial position and results of operations, as presented herein may not have been the same as would have occurred had Retained Business and the Space & Communications Operations been independent entities.

All significant intercompany balances and transactions have been eliminated.

Certain other assets of Loral will also be distributed to Space & Communications Operations as of the closing date of the merger. These assets, consisting of certain fixed assets and other miscellaneous assets, have been included in the accompanying financial statements since they have been used principally by the Retained Business.

Allocation of Certain Expenses

The financial statements reflect the allocations of certain expenses to Space & Communications Operations based upon estimates of actual services performed by the Company (See Note 13). The amount of corporate office expenses allocated to Space & Communications Operations have been estimated based primarily on the allocation methodology prescribed by government regulations pertaining to government contractors, which management believes to be a reasonable allocation method.

Interest Expense

The financial statements exclude interest of \$9,456,000, \$8,253,000 and \$10,550,000 for the years ended March 31, 1995, 1994 and 1993, respectively, which has been allocated to Space & Communications Operations based upon the Company's historical weighted average debt cost applied to Loral's average investment in affiliates for each period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity of three months or less at time of purchase.

Statements of Cash Flows

Changes in operating assets and liabilities are net of the impact of acquisitions and final purchase price allocations. Investing activities do not include certain marketable securities transactions in 1993 which were not settled in cash.

Contracts In Process

Sales on long-term production-type contracts are recorded as units are shipped; profits applicable to such shipments are recorded pro rata, based upon estimated total profit at completion of the contract. Sales and profits on cost reimbursable contracts are recognized as costs are incurred. Sales and estimated profits under other long-term contracts are recognized under the percentage of completion method of accounting using the cost-to-cost method. Amounts representing contract change orders or claims are included in sales only when they can be reliably estimated and realization is probable.

Costs accumulated under long-term contracts include applicable amounts of selling, general and administrative expenses. Losses on contracts are immediately recognized in full when determinable. Revisions in profit estimates are reflected in the period in which the facts which require the revision become known.

In accordance with industry practice, contracts in process contain amounts relating to contracts and programs with long production cycles, a portion of which may not be realized within one year.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is provided primarily on the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements.

Cost in Excess of Net Assets Acquired

The excess of the cost of purchased businesses over the fair value of the net assets acquired is being amortized using a straight-line method generally over a 40-year period. Accumulated amortization amounted to \$107,857,000 and \$70,207,000 at March 31, 1995 and 1994, respectively.

The carrying amount of Cost in Excess of Net Assets Acquired is evaluated on a recurring basis. Current and future profitability as well as current and future undiscounted cash flows, excluding financing costs, of the acquired businesses are primary indicators of recoverability. For the three years ended March 31, 1995, there were no adjustments to the carrying amount of the cost in excess of net assets acquired resulting from these evaluations.

Foreign Currency Translation

Assets and liabilities of foreign operations are translated into U.S. dollars at current rates and income and expenses are translated at average rates during the period. The effects of the translation adjustments are included as a component of Net Assets.

Accounting Pronouncements

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121"), which is required to be adopted by fiscal 1997. SFAS 121 establishes the accounting standards for the impairment of long-lived assets, certain intangible assets and cost in excess of net assets acquired to be held and used and for long-lived assets and certain intangible assets to be disposed of. The Company is currently evaluating the impact, if any, of SFAS 121.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

3. ACQUISITIONS

On March 1, 1994, effective January 1, 1994, the Company, through its newly formed wholly owned subsidiary, Loral Federal Systems Company ("LFS"), acquired substantially all the assets and liabilities of the Federal Systems Company, a division of International Business Machines Corporation, for \$1,511,500,000 in cash, including acquisition costs. The assets and liabilities recorded in connection with the purchase price allocation were \$1,857,655,000 and \$346,155,000, respectively. The acquisition was financed through cash on hand and commercial paper borrowings.

On August 31, 1992, the Company, through its newly formed wholly owned subsidiary, Loral Vought Systems Corporation ("LVS"), acquired substantially all the assets and liabilities of the missile business of LTV Aerospace and Defense Company for \$254,250,000 in cash, including acquisition costs. The assets and liabilities recorded in connection with the purchase price allocation were \$564,502,000 and \$310,252,000, respectively. The acquisition was financed through cash on hand and borrowings under existing credit facilities.

In October 1990, Loral Aerospace Holdings, Inc. ("LAH"), a company owned by the Company and certain partnerships affiliated with Lehman Brothers Holdings Inc. (the "Lehman Partnerships"), acquired substantially all the businesses of Ford Aerospace Corporation ("FAC"). The FAC businesses were acquired by separate subsidiaries of LAH; Loral Aerospace Corp. ("Loral Aerospace") purchased all the businesses other than FAC's Space Systems Division, which was purchased by SS/L.

Effective June 1, 1992, the Company acquired the minority equity interest in LAH held by the Lehman Partnerships through the issuance of 12,313,810 shares of Loral Common Stock and 627.3 shares of LAH Series S Preferred Stock. Each share of Series S Preferred Stock represents a beneficial interest in one share of common stock of SS/L. As a result of the issuance of the Series S Preferred Stock, the Lehman Partnerships have no economic interest in LAH other than with respect to the SS/L operations. This transaction increased Net Assets by \$195,179,000, eliminated Minority Interest, decreased Changes in Net Assets Applicable to Space and Communications Operations by \$71,350,000 and increased Cost in Excess of Net Assets Acquired by \$159,960,000.

In 1995, the Company acquired a business for \$3,750,000 in cash and in 1994, the Company acquired two other businesses for \$27,422,000 in cash. These acquisitions did not have a material effect on the operations of the Company.

The acquisitions of LFS, LVS and the Lehman Partnerships' equity interest in LAH have been accounted for as purchases. As such, the Company's consolidated financial statements reflect the results of operations of the acquired entities and the elimination of the minority interest from the respective effective dates of acquisition.

Performance under acquired contracts in process, the accounting for which is described in Note 4, contributed after-tax income of \$62,328,000, \$49,061,000, and \$43,283,000, net of after-tax interest cost on debt related to the acquisitions and incremental amortization of cost in excess of net assets acquired aggregating \$85,922,000, \$29,125,000 and \$18,653,000 for 1995, 1994, and 1993, respectively.

Had the acquisition of LFS occurred on April 1, 1993, the unaudited proforma sales and income before extraordinary item and cumulative effect of changes in accounting for the year ended March 31, 1994 would have been: \$5,853,700,000 and \$231,500,000. The results, which are based on various assumptions, are not necessarily indicative of what would have occurred had the acquisition been consummated as of April 1, 1993.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

4. CONTRACTS IN PROCESS

Billings and accumulated costs and profits on long-term contracts, principally with the U.S. Government, comprise the following:

| | MARCH 31, | |
|---|----------------|--------------|
| | 1995 | 1994 |
| | (IN THOUSANDS) | |
| Billed contract receivables..... | \$ 380,240 | \$ 423,894 |
| Unbilled contract receivables..... | 1,702,967 | 1,901,156 |
| Inventoried costs..... | 477,955 | 557,259 |
| | ----- | ----- |
| | 2,561,162 | 2,882,309 |
| Less, unliquidated progress payments..... | (1,413,929) | (1,553,971) |
| | ----- | ----- |
| Net contracts in process..... | \$ 1,147,233 | \$ 1,328,338 |
| | ===== | ===== |

Unbilled contract receivables represent accumulated costs and profits earned but not yet billed to customers at year-end. The Company believes that substantially all such amounts will be billed and collected within one year.

The following data has been used in the determination of costs and expenses:

| | 1995 | 1994 | 1993 |
|---|----------------|-----------|-----------|
| | (IN THOUSANDS) | | |
| Selling, general and administrative costs included in inventoried costs..... | \$ 51,468 | \$ 64,212 | \$ 82,676 |
| Selling, general and administrative costs incurred..... | 563,342 | 462,890 | 389,404 |
| Independent research and development, including bid and proposal costs, included in S,G&A incurred..... | 228,005 | 172,604 | 124,718 |

In connection with the determination of the fair value of assets acquired (Note 3) and pursuant to the provisions of Accounting Principles Board Opinion No. 16, the Company has valued acquired contracts in process at contract price, minus the estimated cost to complete and an allowance for the Company's normal profit on its effort to complete such contracts.

5. PROPERTY, PLANT AND EQUIPMENT

| | MARCH 31, | |
|---|----------------|-------------|
| | 1995 | 1994 |
| | (IN THOUSANDS) | |
| Land..... | \$ 106,879 | \$ 116,347 |
| Buildings and improvements..... | 569,724 | 560,163 |
| Machinery, equipment, furniture and fixtures..... | 1,095,149 | 1,125,261 |
| Leasehold improvements..... | 128,052 | 125,207 |
| | ----- | ----- |
| | \$1,899,804 | \$1,926,978 |
| | ===== | ===== |

Depreciation and amortization expense in 1995, 1994 and 1993 was \$192,473,000, \$141,853,000, and \$113,447,000, respectively.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

6. DEBT

| | MARCH 31, | |
|--|----------------|---------------|
| | ----- 1995 | 1994 ----- |
| | (IN THOUSANDS) | |
| Commercial paper (6.22% and 3.76% at March 31, 1995 and 1994, respectively)..... | \$ 241,811 | \$ 1,373,548 |
| 7 5/8% Senior Notes due 2004..... | 250,000 | |
| 9 1/8% Senior Debentures due 2022..... | 100,000 | 100,000 |
| 8 3/8% Senior Debentures due 2023..... | 100,000 | 100,000 |
| 7% Senior Debentures due 2023..... | 200,000 | 200,000 |
| 8 3/8% Senior Debentures due 2024..... | 400,000 | |
| Other..... | 24,677 | 24,441 |
| | ----- | ----- |
| | 1,316,488 | 1,797,989 |
| Less current maturities..... | 958 | 173,928 |
| | ----- | ----- |
| Total long-term debt..... | \$1,315,530 | \$ 1,624,061 |
| | ===== | ===== |

The aggregate maturities of long-term debt, excluding commercial paper borrowings classified as long-term, for the years 1996 through 2000 are as follows: \$958,000, \$10,868,000, \$1,214,000, \$985,000 and \$941,000.

At March 31, 1995, the Company has a \$1,200,000,000 revolving credit facility with a group of banks expiring in November 1999. This facility supports the Company's commercial paper borrowings and is available for other corporate purposes. The amount available for borrowings is reduced by the outstanding commercial paper. Borrowings are unsecured and bear interest, at the Company's option, at various rates based on the base rate, or on margins over the CD rate or EuroDollar rate. The Company pays a commitment fee on the unused portion. The margins and the commitment fee are subject to adjustment. Borrowings are prepayable at any time and are due at expiration. The facility is subject to financial covenants requiring the Company to maintain certain levels of net worth and an interest coverage ratio, as well as a limitation on indebtedness and dividends.

Commercial paper outstanding at March 31, 1995 is classified as long-term since the Company intends to refinance these borrowings on a long-term basis either through continued commercial paper borrowings or utilization of the available credit facilities.

In May 1994, the Company increased its existing shelf registration statement to issue up to \$800,000,000 of debt and equity securities. In June 1994, the Company issued \$250,000,000 7 5/8% Senior Notes due 2004 and \$400,000,000 8 3/8% Senior Debentures due 2024. The proceeds were used to reduce outstanding commercial paper.

All of the Company's Senior Notes and Senior Debentures are not redeemable prior to maturity and are not subject to any sinking fund requirements.

In fiscal 1993, the Company recorded an extraordinary charge of \$28,216,000 pre-tax or \$17,776,000 after-tax for the early redemption of certain long-term debt issues and the cancellation of an existing credit facility. The extraordinary charge consisted of redemption premiums and the write-off of unamortized discounts and financing costs. In addition, in fiscal 1993, the Company issued 3,149,710 shares of Lorai Common Stock in connection with the conversion of \$69,694,000 principal amount of certain convertible debentures.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

7. INCOME TAXES

In 1993, the Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), which changed the method of accounting for income taxes from the deferred method to the liability method. Under the liability method, deferred tax assets and liabilities are recognized based on the temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and income tax purposes using currently enacted tax rates. The adoption of SFAS 109 did not result in a material cumulative effect of a change in accounting principle or have a material effect on the financial position or results of operations for the year ended March 31, 1993.

The components of the provision for income taxes are as follows:

| | 1995 | 1994 | 1993 |
|---------------------------------------|----------------|-----------|----------|
| | ----- | | |
| | (IN THOUSANDS) | | |
| Currently payable: | | | |
| Federal..... | \$ 45,273 | \$ 91,358 | \$68,061 |
| State and local..... | 13,622 | 15,534 | 12,566 |
| Foreign..... | 10,792 | 4,028 | 2,869 |
| | ----- | ----- | ----- |
| | 69,687 | 110,920 | 83,496 |
| | ----- | ----- | ----- |
| Deferred: | | | |
| Federal..... | 100,993 | 21,491 | 13,103 |
| State and local..... | 10,776 | 6,009 | 1,715 |
| | ----- | ----- | ----- |
| | 111,769 | 27,500 | 14,818 |
| | ----- | ----- | ----- |
| Total provision for income taxes..... | \$181,456 | \$138,420 | \$98,314 |
| | ===== | ===== | ===== |

The provision for income taxes excludes: current tax benefits related to the exercise of stock options, credited directly to Net Assets, of \$4,503,000, \$3,643,000 and \$10,237,000 for 1995, 1994 and 1993, respectively; a deferred tax credit of \$3,251,000 and a deferred tax benefit of \$10,261,000, related to the additional minimum pension liability recorded directly to Net Assets for 1995 and 1994, respectively; and, in 1993, the tax benefit of \$10,440,000, related to the extraordinary item and the deferred tax benefit of \$97,122,000, related to the cumulative affect of the change in accounting for SFAS 106.

The effective income tax rate differs from the statutory Federal income tax rate for the following reasons:

| | 1995 | 1994 | 1993 |
|---|-------|-------|-------|
| | ---- | ---- | ---- |
| Statutory Federal income tax rate..... | 35.0% | 35.0% | 34.0% |
| Research and development and other tax credits..... | (.6) | (1.1) | (.4) |
| State and local income taxes, net of Federal income tax benefit and state and local income tax credits..... | 3.3 | 3.8 | 3.6 |
| Foreign sales corporation tax benefit..... | (.6) | (.7) | (.8) |
| Other, net..... | .9 | .4 | .7 |
| | ---- | ---- | ---- |
| Effective income tax rate..... | 38.0% | 37.4% | 37.1% |
| | ==== | ==== | ==== |

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

The significant components of the deferred income tax assets and liabilities are:

| | MARCH 31, | |
|--|----------------|-----------|
| | 1995 | 1994 |
| | (IN THOUSANDS) | |
| Deferred tax assets: | | |
| Postretirement benefits other than pensions..... | \$185,169 | \$191,678 |
| Inventoried costs..... | 128,059 | 100,927 |
| Intangible assets..... | 33,149 | 1,616 |
| Compensation and benefits..... | 18,406 | 14,545 |
| Installment sales..... | | 9,100 |
| Other, net..... | 21,315 | 36,867 |
| | ----- | ----- |
| | 386,098 | 354,733 |
| | ----- | ----- |
| Deferred tax liabilities: | | |
| Pension costs..... | 175,146 | 126,771 |
| Property, plant and equipment..... | 49,815 | 64,912 |
| Income recognition on long-term contracts..... | 16,277 | 16,887 |
| | ----- | ----- |
| | 241,238 | 208,570 |
| | ----- | ----- |
| Net deferred income tax asset..... | \$144,860 | \$146,163 |
| | ===== | ===== |

The net deferred income tax asset is classified as follows:

| | MARCH 31, | |
|--|----------------|-----------|
| | 1995 | 1994 |
| | (IN THOUSANDS) | |
| Current deferred income tax asset..... | \$138,374 | \$104,063 |
| | ===== | ===== |
| Long-term deferred income tax asset..... | \$ 6,486 | \$ 42,100 |
| | ===== | ===== |

8. NET ASSETS

Stock Plans

Under the Company's 1994 Stock Option Plan, options are granted at fair market value at date of grant. Under the Company's various other stock option plans, for which 105,000 shares are available for future grant, options may be granted at prices determined by the Compensation and Stock Option Committee (the "Committee"). The Committee determines the exercise and expiration dates of the options, which may not be later than 10 years from the date of grant. Unearned compensation for options granted at less than their market value at date of grant is included as a component of Net Assets and is amortized over the period that the options vest.

Options outstanding have been granted at prices ranging from \$4.50 to \$39.00 per share.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

A summary of the option transactions follows:

| | 1995 | 1994 | 1993 |
|--|--|------------------------|------------------------|
| | (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | | |
| Options outstanding, beginning of year..... | 5,065 | 3,764 | 5,500 |
| Options granted..... | 684 | 1,895 | 1,340 |
| Options exercised..... | (529) | (508) | (2,944) |
| Exercise price..... | (\$5.00 to \$25.81) | (\$4.50 to \$19.56) | (\$2.85 to \$20.19) |
| Options cancelled..... | (145) | (86) | (132) |
| Options outstanding, end of year..... | 5,075 | 5,065 | 3,764 |
| Options exercisable, end of year..... | 2,129 | 1,781 | 1,390 |

In July 1994, the shareholders approved an increase of 5,500,000 shares of common stock available for future grants. There were 4,980,302 shares, 51,026 shares and 1,859,140 shares of common stock available for future option grants at March 31, 1995, 1994, and 1993, respectively.

Under the Company's Restricted Stock Purchase Plan (the "Plan"), established in 1988, 2,000,000 shares of the Company's common stock were issued under the Plan, upon payment by the employee of the par value per share. The total number of shares earned under the Plan each year equals 3% of the Company's pre-tax profit divided by the grant value (currently \$105 per share) of restricted shares outstanding. Any shares not earned at the earlier of completion of the seventh year after grant or termination of employment will be essentially forfeited by being repurchased by the Company at par value. Under the Plan, 133,463 shares, 104,846 shares and 341,714 shares were earned for the years ended March 31, 1995, 1994 and 1993, respectively. At March 31, 1995, 14,275 shares of common stock are still to be earned. Unearned compensation related to these shares, included as a component of Net Assets, is amortized as the shares are earned.

Of the shares available for future grants at March 31, 1995, up to 1,500,000 shares will be available for the Company's 1994 Incentive Stock Purchase Plan (the "Incentive Plan"). Under the Incentive Plan, the Committee may permit participants to defer up to 100% of their annual bonus into a Restricted Stock Purchase Account (the "Restricted Account"). The Restricted Account will be used to purchase Loréal Common Stock equal to 150% of the deferred bonus, subject to limits the Committee may establish from time to time. The shares in the Restricted Account vest 25% per year commencing upon the second anniversary of the grant date. The Committee may establish specified performance conditions that, if attained, will result in accelerated vesting. All non-vested shares are forfeited upon termination of employment and the remaining balance of the Restricted Account equal to the lesser of the original cost or the market value of the shares is returned to the participant. No shares were issued under the Incentive Plan in 1995.

Net Assets

The components of certain amounts included in Net Assets are:

| | 1995 | 1994 | 1993 |
|---|----------------|----------|----------|
| | (IN THOUSANDS) | | |
| Unearned compensation--stock options..... | \$10,651 | \$13,644 | \$ 8,424 |
| Unearned compensation--Restricted Stock Purchase Plan..... | 605 | 5,521 | 7,504 |
| Cumulative translation adjustment..... | 2,804 | 1,904 | 367 |
| Additional minimum pension liability..... | 10,964 | 16,049 | |

\$25,024 \$37,118 \$16,295
=====

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

9. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under agreements expiring at various dates through 2080. At March 31, 1995, future minimum payments for noncancellable operating and capital leases with initial or remaining terms in excess of one year are as follows:

| | OPERATING LEASES | | | |
|-----------------|------------------|-----------|----------------|-----------|
| | REAL ESTATE | EQUIPMENT | CAPITAL LEASES | TOTAL |
| | (IN THOUSANDS) | | | |
| 1996..... | \$ 44,363 | \$11,788 | \$ 1,243 | \$ 57,394 |
| 1997..... | 31,275 | 9,084 | 11,394 | 51,753 |
| 1998..... | 18,866 | 7,070 | 1,243 | 27,179 |
| 1999..... | 12,535 | 5,756 | 1,243 | 19,534 |
| 2000..... | 4,098 | 5,198 | 1,243 | 10,539 |
| Thereafter..... | 78,741 | | 8,385 | 87,126 |
| | ----- | ----- | ----- | ----- |
| | \$189,878 | \$38,896 | \$24,751 | \$253,525 |
| | ===== | ===== | ===== | ===== |

Real estate lease commitments have been reduced by minimum sublease rentals of \$60,939,000 due in the future under noncancellable subleases. The present value of the minimum lease payments for capital leases is \$17,168,000, net of imputed interest of \$7,583,000.

Leases covering major items of real estate and equipment contain renewal and or purchase options which may be exercised by the Company. Rent expense, net of sublease income of \$11,429,000, \$7,285,000 and \$4,499,000, was \$84,884,000, \$60,891,000 and \$47,175,000, in 1995, 1994 and 1993, respectively.

At March 31, 1995, outstanding letters of credit were approximately \$262,000,000.

In April 1995, the Federal Aviation Administration ("FAA") awarded the Company a contract modification valued at \$955,000,000 to upgrade the nation's air traffic control system, thereby eliminating the uncertainty concerning the status of the program. This contract modification was issued following the conclusion of the FAA's comprehensive review, begun in December 1993, of the Company's air traffic control program.

Management is continually assessing its obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost to be incurred by the Company in order to comply with these laws, based upon available internal and external assessments, the Company believes that even without considering potential insurance recoveries, if any, there are no environmental loss contingencies that, individually or in the aggregate, are material. The Company accrues for these contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company has been named a Potentially Responsible Party ("PRP") at a number of sites. In several of these situations Lorol acquired the site pursuant to a purchase agreement which provided that the seller would retain liability for environmental remediation and related costs arising from occurrences prior to the sale. In other situations the Company is party to an interim or final allocation plan that has been accepted by other PRPs whose size and current financial condition make it probable that they will be able to pay the environmental costs apportioned to them. The Company believes that it has adequately accrued for future expenditures in connection with environmental matters and that such expenditures will not have a material adverse effect on its financial position or results of operations.

There are a number of lawsuits or claims pending against the Company and incidental to its business. However, in the opinion of management, the ultimate liability on these matters, if any, will not have a material adverse effect on the financial position or results of operations of the Company.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

10. PENSIONS AND OTHER EMPLOYEE BENEFITS

Pensions

The Company maintains a number of pension plans, both contributory and noncontributory, covering certain employees. Eligibility for participation in these plans varies and benefits are generally based on members' compensation and years of service. The Company's funding policy is generally to contribute in accordance with cost accounting standards that affect government contractors, subject to the Internal Revenue Code and regulations thereon. Plan assets are invested primarily in U.S. government and agency obligations and listed stocks and bonds. The pension credit of \$18,608,000 in 1995 is net of \$14,992,000 pension cost for LFS.

Pension credit includes the following components:

| | 1995 | 1994 | 1993 |
|---|----------------|-------------|-------------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Service cost-benefits earned during the period..... | \$ 58,699 | \$ 29,530 | \$ 25,387 |
| Interest cost on projected benefit obligation..... | 164,266 | 158,681 | 123,560 |
| Actual return on plan assets..... | (4,814) | (271,974) | (123,292) |
| Net amortization and deferral..... | (236,759) | 64,221 | (38,886) |
| | ----- | ----- | ----- |
| Total pension credit..... | \$ (18,608) | \$ (19,542) | \$ (13,231) |
| | ===== | ===== | ===== |

The following presents the plans' funded status and amounts recognized in the balance sheet:

| | MARCH 31, | | | |
|---|--|--|--|--|
| | 1995 | | 1994 | |
| | ----- | ----- | ----- | ----- |
| | ASSETS EXCEED ACCUMULATED BENEFITS | ACCUMULATED BENEFITS EXCEED ASSETS | ASSETS EXCEED ACCUMULATED BENEFITS | ACCUMULATED BENEFITS EXCEED ASSETS |
| | ----- | | | |
| | (IN THOUSANDS) | | | |
| Actuarial present value of benefit obligations: | | | | |
| Vested benefits..... | \$1,797,076 | \$ 162,120 | \$1,844,260 | \$ 235,480 |
| | ===== | ===== | ===== | ===== |
| Accumulated benefits.. | \$1,807,500 | \$ 162,810 | \$1,871,754 | \$ 236,467 |
| Effect of projected future salary increases..... | 95,632 | 13,406 | 151,071 | 13,184 |
| | ----- | ----- | ----- | ----- |
| Projected benefits.... | 1,903,132 | 176,216 | 2,022,825 | 249,651 |
| Plan assets at fair value..... | 2,263,576 | 152,734 | 2,361,527 | 211,489 |
| | ----- | ----- | ----- | ----- |
| Plan assets in excess of (less than) projected benefit obligation.... | 360,444 | (23,482) | 338,702 | (38,162) |
| Unrecognized net loss... | 130,075 | 31,382 | 12,879 | 39,495 |
| Unrecognized prior service cost..... | 814 | 9,389 | (1,714) | 12,484 |
| Unrecognized net asset existing at transition..... | (1,882) | (1) | (2,241) | (1) |
| Additional minimum liability..... | | (27,364) | | (38,794) |
| | ----- | ----- | ----- | ----- |
| Prepaid (accrued) | | | | |

| | | | | |
|-------------------|------------|-------------|------------|-------------|
| pension cost..... | \$ 489,451 | \$ (10,076) | \$ 347,626 | \$ (24,978) |
| | ===== | ===== | ===== | ===== |

The principal actuarial assumptions were:

| | 1995 | 1994 | 1993 |
|---|-------|-------|------|
| | ---- | ---- | ---- |
| Discount rate..... | 8.5% | 7.75% | 9.0% |
| Rate of increase in compensation levels..... | 4.75% | 4.75% | 6.0% |
| Expected long-term rate of return on plan assets..... | 9.5% | 9.5% | 9.5% |

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Postretirement Health Care and Life Insurance Benefits

In addition to providing pension benefits, the Company provides certain health care and life insurance benefits for retired employees and dependents at certain locations. Participants are eligible for these benefits when they retire from active service and meet the eligibility requirements for the Company's pension plans. These benefits are funded primarily on a pay-as-you-go basis with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

Effective April 1, 1992, the Company adopted Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106"). SFAS 106 requires employers to recognize the cost of postretirement health and welfare obligations in their financial statements over the years of employee service. These costs were previously expensed on a pay-as-you-go basis. The Company elected to immediately recognize the accumulated postretirement obligation upon adoption of SFAS 106. A non-recurring charge of \$323,740,000 pre-tax or \$226,618,000 after-tax was recorded as the cumulative effect of the accounting change in 1993.

In March 1993 and March 1994, the Company adopted various plan amendments resulting in unrecognized prior service gains, which are being amortized commencing in the quarter following adoption.

Postretirement health care and life insurance costs include the following components:

| | 1995 | 1994 | 1993 |
|---|----------------|-----------|----------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| Service cost -- benefits earned during the period..... | \$ 8,263 | \$ 6,778 | \$11,364 |
| Interest cost on accumulated postretirement benefit obligation..... | 31,340 | 42,117 | 45,989 |
| Net amortization..... | (21,712) | (14,068) | |
| | ----- | ----- | ----- |
| Total postretirement health care and life insurance costs..... | \$ 17,891 | \$ 34,827 | \$57,353 |
| | ===== | ===== | ===== |

The following table presents the amounts recognized in the balance sheet at:

| | MARCH 31, | |
|--|----------------|------------|
| | ----- | ----- |
| | 1995 | 1994 |
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Accumulated postretirement benefit obligation: | | |
| Retirees..... | \$293,506 | \$ 363,886 |
| Fully eligible plan participants..... | 31,311 | 29,689 |
| Other active plan participants..... | 58,011 | 95,372 |
| | ----- | ----- |
| Total accumulated postretirement benefit obligation..... | 382,828 | 488,947 |
| Unrecognized prior service gain related to plan amendments..... | 231,019 | 252,200 |
| Unrecognized net loss..... | (12,012) | (126,859) |
| | ----- | ----- |
| Accrued postretirement health care and life insurance costs..... | \$601,835 | \$ 614,288 |
| | ===== | ===== |

Actuarial assumptions used in determining the accumulated postretirement benefit obligation include a discount rate of 8.5% and 7.75% for 1995 and 1994, respectively, and an assumed health care cost trend rate of 11.7%

decreasing gradually to an ultimate rate of 6% by the year 2003. Changing the assumed health care cost trend rate by 1% in each year would change the accumulated postretirement benefit obligation at March 31, 1995 by approximately \$36,000,000 and the aggregate service and interest cost components for 1995 by approximately \$4,800,000.

Employee Savings Plans

Under its various employee savings plans, the Company matches the contributions of participating employees up to a designated level. The extent of the match, vesting terms and the form of the matching contribution vary among the plans. Under these plans, the matching contributions, in cash, Loral common stock or both, for 1995, 1994 and 1993 were \$26,701,000, \$22,929,000 and \$18,625,000, respectively.

Postemployment Benefits

Effective April 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 112, "Employers' Accounting for Postemployment Benefits" ("SFAS 112"). SFAS 112 requires that the costs of benefits provided to employees after employment but before retirement be recognized on an accrual basis. The adoption of SFAS 112 did not have a material impact on the financial position or results of operations of the Company.

11. FINANCIAL INSTRUMENTS

The Company's financial instruments recorded on the balance sheet include cash and cash equivalents and debt. Due to their short maturity, the fair value of cash and cash equivalents approximates carrying value. The fair value of the Company's debt, based on quoted market prices or current rates for similar instruments with the same maturities, was approximately \$1,262,841,000 and \$1,777,667,000 at March 31, 1995 and 1994, respectively.

The Company uses off balance sheet derivative financial instruments, including foreign currency forward contracts and interest rate hedge transactions, to minimize foreign currency and interest rate risk. The Company does not hold or issue derivative financial instruments for speculative purposes.

Foreign Currency Hedges

The majority of the Company's foreign currency forward contracts are entered into at the direction of the customer pursuant to contractual requirements. Any gain or loss on the hedges accrues for the benefit or detriment of the customer and does not expose the Company to risk.

At March 31, 1995, the Company has open forward contracts to sell approximately \$41,500,000 of Pound Sterling to minimize the effect of currency exposure on future cash payments from foreign operations. At March 31, 1995, the fair value of the forward contracts is not material. Gains and losses on foreign currency forward contracts are recorded when the transactions being hedged are realized. For the year ended March 31, 1995, gains and losses on these contracts were not material. Other forward contracts are not material.

Interest Rate Hedges

At March 31, 1994, to fix the effective interest rates on the anticipated refinancing of its outstanding commercial paper, the Company entered into interest rate hedges by selling U.S. Treasury forward contracts with a notional value of \$500,000,000. The hedges were closed in June 1994 upon the issuance of the \$250,000,000 7 5/8% Senior Notes due 2004 and the \$400,000,000 8 3/8% Senior Debentures due 2024. The net realized gain of \$17,073,000 was deferred and is being amortized on a pro rata basis over the term of the Senior Notes and Senior Debentures.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

12. SALES TO PRINCIPAL CUSTOMERS

The Company operates primarily in one industry segment, government electronic systems. Sales to principal customers are as follows:

| | 1995 | 1994 | 1993 |
|--|----------------|-------------|-------------|
| | ----- | | |
| | (IN THOUSANDS) | | |
| U.S. Government Agencies..... | \$3,548,585 | \$2,578,004 | \$2,077,009 |
| Foreign (principally foreign governments)..... | 1,021,284 | 564,612 | 477,501 |
| Other (principally U.S. Government end use)..... | 914,532 | 866,117 | 780,893 |
| | ----- | ----- | ----- |
| | \$5,484,401 | \$4,008,733 | \$3,335,403 |
| | ===== | ===== | ===== |

Foreign sales comprise the following:

| | 1995 | 1994 | 1993 |
|--|----------------|------------|------------|
| | ----- | | |
| | (IN THOUSANDS) | | |
| Export sales: | | | |
| Asia..... | \$ 234,307 | \$ 227,312 | \$ 190,125 |
| Middle East..... | 151,152 | 91,049 | 119,401 |
| Europe..... | 96,257 | 106,546 | 128,707 |
| Other..... | 19,716 | 28,289 | 26,733 |
| | ----- | ----- | ----- |
| | 501,432 | 453,196 | 464,966 |
| Foreign operations, principally Europe.... | 519,852 | 111,416 | 12,535 |
| | ----- | ----- | ----- |
| Total foreign sales..... | \$1,021,284 | \$ 564,612 | \$ 477,501 |
| | ===== | ===== | ===== |

13. RELATED PARTY TRANSACTIONS

The Company has a number of transactions with Space & Communications Operations. The Company believes that the arrangements are as favorable to the Company as could be obtained from unaffiliated parties. The following describes the related-party transactions.

The Company bills certain operational, executive, administrative, financial, legal and other services to SS/L and SS/L charges the Company certain overhead costs. Net costs billed to SS/L were \$11,907,000, \$9,446,000 and \$10,448,000 in 1995, 1994 and 1993, respectively. In addition, Loral Corporation sells products to SS/L; net sales to SS/L were \$26,031,000, \$15,769,000 and \$11,574,000 in 1995, 1994 and 1993, respectively. The Company and SS/L have a tax sharing agreement whereby certain tax liabilities and benefits are shared equitably. The Company has guaranteed performance of SS/L under one commercial contract. To date, SS/L has performed satisfactorily under this contract, and management believes that it will be successfully completed.

Two of the Company's divisions have entered into contracts, totaling \$28,744,000, to construct a portion of the Globalstar System. Sales to Globalstar for the year ended March 31, 1995 were \$7,429,000. Included in Other Current Assets are receivables from Globalstar of \$2,248,000 at March 31, 1995.

The Company and K&F have agreements covering various real property occupancy arrangements and agreements under which the Company and K&F provide certain services, such as benefits administration, treasury, accounting and legal services to each other. The charges for these services, as agreed to by the Company and K&F, are based upon the actual cost incurred in providing the services without a profit. These transactions between the Company and K&F were not significant. Sales to K&F were \$4,181,000, \$6,785,000 and \$4,796,000 in 1995, 1994 and 1993, respectively.

14. SUBSEQUENT EVENTS

Acquisition:

On May 5, 1995, the Company acquired substantially all the assets and liabilities of the Defense Systems operations of Unisys Corporation ("Loral UDS"). The effective purchase price of \$803,400,000, as previously reported by Loral, was adjusted to \$862,609,000, net of cash acquired, as a result of receiving additional net assets. Additionally, acquisition expenses of \$6,000,000 have been recorded. The acquisition was financed through commercial paper borrowings.

Debt:

In June 1995, the Company issued \$150,000,000 7 5/8% Senior Debentures due 2025 utilizing the balance of the Company's existing shelf registration statement. These securities are not callable and are not subject to any sinking fund provisions. The proceeds were used to reduce the Company's outstanding commercial paper borrowings.

Commitments:

In October 1995, the Company agreed to guarantee \$250,000,000 of bank debt of one of the Company's affiliates, Globalstar. In exchange for the guarantee, the Company will be issued warrants to purchase up to 8% equity interest in Globalstar on a fully diluted basis. Subject to the approval of its shareholders, the warrants will be issued by Globalstar Telecommunications Limited ("GTL"), a general partner of Globalstar, and upon such approval, GTL will be issued additional warrants representing an approximate 2% equity interest in Globalstar. If GTL shareholder approval is not obtained, Globalstar will issue to the Company warrants to purchase partnership interests representing up to 8% equity interest in Globalstar and no warrants will be issued to GTL. Globalstar has also agreed to pay the Company a fee equal to 1.5% per annum of the guaranteed amount outstanding under the bank financing. Such fee will be deferred and will be paid with interest commencing 90 days after the expiration of the bank financing. It is expected that Globalstar's other strategic partners will assume a portion of the guarantee. On December 15, 1995, Globalstar entered into a five-year \$250 million credit agreement with a group of banks. (See Merger below.)

Merger:

On January 7, 1996, Loral Corporation and Lockheed Martin Corporation ("Lockheed Martin") entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") among Loral Corporation, Lockheed Martin and LAC Acquisition Corporation ("LAC"), a wholly-owned subsidiary of Lockheed Martin, providing for the transactions that will result in the defense electronics and systems integration businesses of Loral Corporation becoming a subsidiary of Lockheed Martin. Concurrently with the execution of the Merger Agreement, Loral Corporation, certain wholly-owned subsidiaries of Loral Corporation and Lockheed Martin, entered into the Restructuring, Financing and Distribution Agreement (the "Distribution Agreement"), which provides, among other things, for (i) the transfer of Loral Corporation's space and communications businesses, including its direct and indirect interests in Globalstar, Space Systems/Loral, Inc. and other affiliated businesses, as well as certain other assets, to Loral Space & Communications Ltd., a Bermuda company ("Loral SpaceCom"), (ii) the distribution of all of the shares of Loral SpaceCom common stock to holders of Loral Corporation common stock and persons entitled to acquire shares of Loral Corporation common stock on a one-for-one basis (the "Spin-Off") each as of a record date (the "Spin-Off Record Date") to be declared by the Board of Directors of Loral Corporation and to be a date on or immediately prior to the consummation of the tender offer, and (iii) the contribution by Lockheed Martin of \$712,400,000 to Loral SpaceCom, of which

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

\$344,000,000 represents payment for preferred stock, convertible into a 20% equity interest in Loral SpaceCom, to be retained by Lockheed Martin following the Spin-Off and the Merger.

Under the terms of the Merger Agreement, LAC commenced a cash tender offer on January 12, 1996 for all outstanding shares of common stock, par value \$.25 per share, of Loral Corporation at a price of \$38.00 per share. Consummation of the tender offer is subject to, among other things, at least two-thirds of the shares of Loral Corporation common stock, determined on a fully-diluted basis, being validly tendered and not withdrawn prior to the expiration of the tender offer, applicable regulatory approvals and the occurrence of the Spin-Off Record Date. In connection with the merger, the Stock Option and Compensation Committee of the Board of Directors of Loral established January 12, 1996, as the accelerated date for vesting of all stock options.

Under the terms of the Merger Agreement, Lockheed Martin agreed to assume the obligations of the Company as guarantor under the above described Credit Agreement and receive up to 60% of such warrants. In addition, Loral SpaceCom has agreed to (i) indemnify Lockheed Martin, under certain circumstances, for up to \$100,000,000 for its guarantee of Globalstar's obligations under the Credit Agreement, and (ii) use its reasonable efforts to cause Globalstar's partners to assume up to \$150,000,000 of the obligations as guarantor under the Credit Agreement. To the extent the Loral SpaceCom indemnity is applicable, Loral SpaceCom will receive the pro-rata portion of the warrants in respect thereof. To the extent Globalstar's partners agree to assume the obligations as guarantor, rights to a proportionate amount of such warrants will be transferred to them, and the Lockheed Martin guarantee and the Loral SpaceCom indemnification will be reduced accordingly.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

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LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

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

NINE MONTHS ENDED DECEMBER 31, 1995

On January 7, 1996, Loral Corporation and Lockheed Martin Corporation ("Lockheed Martin") entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") among Loral Corporation, Lockheed Martin and LAC Acquisition Corporation ("LAC"), a wholly-owned subsidiary of Lockheed Martin, providing for the transactions that will result in the defense electronics and systems integration businesses of Loral Corporation becoming a subsidiary of Lockheed Martin. Concurrently with the execution of the Merger Agreement, Loral Corporation, certain wholly-owned subsidiaries of Loral Corporation and Lockheed Martin, entered into the Restructuring, Financing and Distribution Agreement (the "Distribution Agreement"), which provides, among other things, for (i) the transfer of Loral Corporation's space and communications businesses including its direct and indirect interests in Globalstar, Space Systems/Loral, Inc. and other affiliated businesses, as well as certain other assets, to Loral Space & Communications Ltd., a Bermuda company ("Loral SpaceCom"), (ii) the distribution of all of the shares of Loral SpaceCom common stock to holders of Loral Corporation common stock and persons entitled to acquire shares of Loral Corporation common stock on a one-for-one basis (the "Spin-Off") each as of a record date (the "Spin-Off Record Date") to be declared by the Board of Directors of Loral Corporation and to be a date on or immediately prior to the consummation of the tender offer, and (iii) the contribution by Lockheed Martin of \$712.4 million to Loral SpaceCom, of which \$344 million represents payment for preferred stock, convertible into a 20% equity interest in Loral SpaceCom, to be retained by Lockheed Martin following the Spin-Off and the Merger. (See Note 6 to Condensed Consolidated Financial Statements.)

Management's discussion and analysis of results of operations and financial condition addresses the portion of Loral Corporation that will become a subsidiary of Lockheed Martin (the "Company" or "the Retained Business").

On May 5, 1995, the Company acquired the Defense Systems operations of Unisys Corporation. Unisys Defense Systems ("Loral UDS"), headquartered in McLean, Virginia, is a leading systems integrator and software developer for defense and non-defense government agencies worldwide, as well as a supplier of electronic countermeasures, navigation and communication subsystems for surface ships and submarines. Historical operating results of Loral UDS for the fiscal year ended December 31, 1994 include sales of \$1.431 billion, net income of \$77.5 million, funded backlog at December 31, 1994 of \$1.098 billion and approximately 8,600 employees. The results of operations of Loral UDS are included from the effective date of acquisition. (See Note 2 to Condensed Consolidated Financial Statements.)

FINANCIAL CONDITION

The Loral UDS purchase price was financed through additional commercial paper borrowings which are supported by the Company's \$1.2 billion revolving credit facility. In June 1995, to take advantage of a decline in interest rates and to fix interest costs and lengthen maturities, the Company issued \$150 million 7 5/8% Senior Debentures due 2025 utilizing the balance of the Company's existing shelf registration statement. The proceeds were used to reduce the Company's outstanding commercial paper borrowings. (See Note 4 to Condensed Consolidated Financial Statements.)

The majority of the Company's foreign currency hedges are entered into at the direction of the customer pursuant to contractual requirements. Any gain or loss on the hedges accrues to the benefit or detriment of the customer and does not expose the Company to risk. The remaining foreign currency hedges are not material.

The Company's current ratio increased to 1.6:1 at December 31, 1995, compared with 1.5:1 at March 31, 1995. The debt (net of cash) to net assets ratio grew to .96:1 at December 31, 1995 from .83:1 at March 31, 1995 due primarily to the acquisition of Loral UDS.

In October 1995, the Company agreed to guarantee \$250 million of bank debt of one of the Company's affiliates, Globalstar, L.P. ("Globalstar"). In exchange for the guarantee, the Company will be issued warrants to purchase up to an 8% equity interest in Globalstar on a fully diluted basis. Subject to the approval of its shareholders, the warrants will be issued by Globalstar Telecommunications Limited ("GTL"), a general partner of Globalstar, and upon such approval, GTL will be issued additional warrants representing an approximate 2% equity interest in Globalstar. If GTL shareholder approval is not obtained, Globalstar will issue to the Company warrants to purchase partnership interests representing up to an 8% equity interest in Globalstar and no warrants will be issued to GTL. Globalstar has also agreed to pay the Company a fee equal to 1.5% per annum of the guaranteed amount outstanding under the bank financing. Such fee will be deferred and will be paid with interest commencing 90 days after the expiration of the bank financing. It is expected that Globalstar's other strategic partners will assume a portion of the guarantee. On December 15, 1995, Globalstar entered into a five-year \$250 million credit agreement with a group of banks.

Under the terms of the Merger Agreement, Lockheed Martin agreed to assume the obligations of the Company as guarantor under the above-described Credit Agreement and receive up to 60% of such warrants. In addition, Loral SpaceCom has agreed to (i) indemnify Lockheed Martin, under certain circumstances, for up to \$100 million for its guarantee of Globalstar's obligations under the Credit Agreement; and (ii) use its reasonable efforts to cause Globalstar's partners to assume up to \$150 million of the obligations as guarantor under the Credit Agreement. To the extent the Loral SpaceCom indemnity is applicable, Loral SpaceCom will receive the pro-rata portion of the warrants in respect thereof. To the extent Globalstar's partners agree to assume the obligations as guarantor, rights to a proportionate amount of such warrants will be transferred to them, and the Lockheed Martin guarantee and the Loral SpaceCom indemnification will be reduced accordingly. (See Notes 5 and 6 to Condensed Consolidated Financial Statements.)

COMPARISON OF RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED DECEMBER 31, 1995 AND DECEMBER 31, 1994

Sales for the nine months ended December 31, 1995 increased to \$4.720 billion from \$4.025 billion in the prior year. Net income for the nine months ended December 31, 1995 increased to \$258.0 million compared with \$195.2 million in the prior year. The results of operations of Loral UDS contributed \$9.9 million to the current period's earnings.

The sales increase was attributable primarily to the sales of the acquired Loral UDS business which amounted to \$661.5 million. Sales also include higher volume of \$73.0 million for the Patriot Advanced Capability (PAC-3) missile, formerly known as Extended Range Interceptor (ERINT), \$62.9 million for the United Kingdom's EH-101 Merlin ASW helicopter and \$46.5 million for various U.S. Postal Service automation systems; offset by lower volume of \$42.4 million for the U.S. Navy's Light Airborne Multipurpose System (LAMPS) MK III ASW helicopter, \$38.6 million for the Multiple Launch Rocket System (MLRS), \$37.5 million for the ALR-56 radar warning systems and \$30.0 million for the Army Tactical Missile System (ATACMS). The Company has a diverse base of programs, none of which is expected to account for more than 7% of fiscal 1996 revenues. The change in sales from period to period also includes increases and decreases on a variety of other programs which individually are not significant to the overall sales change.

Operating income increased to \$502.2 million from \$381.9 million in the prior year. The operating income increase includes \$58.3 million attributable to the results of the acquired Loral UDS business. Operating income as a percentage of sales increased to 10.6% for the nine months ended December 31, 1995 from 9.5% in the prior year. Excluding the effect of the acquired Loral UDS business, operating income as a percentage of sales increased to 10.9% in the nine months ended December 31, 1995 from 9.5% in the prior year as a result of improved margins due to operating efficiencies particularly at the Loral Federal Systems business acquired effective January 1994; offset by higher pension cost in the current period as a result of the prior year's asset performance.

Interest expense, net of interest and investment income, increased to \$85.9 million from \$67.1 million in the prior year. This increase was primarily due to the \$42.2 million impact of debt incurred to finance the acquisition of Loral UDS. Excluding the impact of the Loral UDS acquisition, interest expense, net, decreased by \$23.4 million, primarily as a result of strong Free Cash Flow, offset by an increase in the weighted average interest rate of debt. The Company's Free Cash Flow (net cash from operating activities, less capital expenditures, plus proceeds of stock purchases by employee benefit plans and exercises of stock options) was \$617.6 million for the twelve months ended December 31, 1995, of which \$482.7 million was generated in the nine months ended December 31, 1995. The Company's weighted average interest rate of debt was 7.41% for the nine months ended December 31, 1995, compared with 6.63% for the nine months ended December 31, 1994.

The Company's effective tax rate was 38% in the nine months ended December 31, 1995 and 1994.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (IN THOUSANDS)

| | NINE MONTHS ENDED DECEMBER 31, | |
|-------------------------------------|-----------------------------------|-------------|
| | 1995 | 1994 |
| Sales..... | \$4,719,541 | \$4,025,035 |
| Costs and expenses..... | 4,217,329 | 3,643,162 |
| Operating income..... | 502,212 | 381,873 |
| Interest and investment income..... | 9,602 | 6,821 |
| Interest expense..... | 95,481 | 73,956 |
| Income before income taxes..... | 416,333 | 314,738 |
| Income taxes..... | 158,326 | 119,513 |
| Net income..... | \$ 258,007 | \$ 195,225 |

See notes to unaudited condensed consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

| | DECEMBER 31, 1995 | MARCH 31, 1995 |
|--|----------------------|-------------------|
| | ----- | ----- |
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents..... | \$ 226,723 | \$ 125,674 |
| Contracts in process..... | 1,375,837 | 1,147,233 |
| Deferred income taxes..... | 120,374 | 138,374 |
| Other current assets..... | 176,354 | 141,846 |
| | ----- | ----- |
| Total current assets..... | 1,899,288 | 1,553,127 |
| Property, plant and equipment, net..... | 1,286,970 | 1,141,525 |
| Cost in excess of net assets acquired, less amortization..... | 1,774,279 | 1,265,932 |
| Deferred income taxes..... | 7,486 | 6,486 |
| Prepaid pension cost and other assets..... | 613,403 | 591,217 |
| | ----- | ----- |
| | \$5,581,426 | \$4,558,287 |
| | ===== | ===== |
| LIABILITIES AND NET ASSETS: | | |
| Current liabilities: | | |
| Current portion of debt..... | \$ 960 | \$ 958 |
| Accounts payable, trade..... | 200,697 | 169,743 |
| Billings and estimated earnings in excess of cost... | 445,417 | 313,379 |
| Accrued employment costs..... | 256,267 | 235,260 |
| Income taxes..... | 92,228 | 80,642 |
| Other current liabilities..... | 201,224 | 216,585 |
| | ----- | ----- |
| Total current liabilities..... | 1,196,793 | 1,016,567 |
| Postretirement benefits..... | 603,415 | 611,911 |
| Other liabilities..... | 195,971 | 178,798 |
| Long-term debt..... | 1,869,263 | 1,315,530 |
| Net assets..... | 1,715,984 | 1,435,481 |
| | ----- | ----- |
| | \$5,581,426 | \$4,558,287 |
| | ===== | ===== |

See notes to unaudited condensed consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(IN THOUSANDS)

| | NINE MONTHS ENDED DECEMBER 31, | |
|--|-----------------------------------|-------------|
| | 1995 | 1994 |
| Balance, April 1..... | \$1,435,481 | \$1,222,054 |
| Shares issued: | | |
| Exercise of stock options and related tax benefits, net of shares tendered..... | 13,330 | 5,750 |
| Employee benefit plans..... | 59,440 | 29,150 |
| Amortization of restricted options..... | 2,244 | 2,602 |
| Shares earned under Restricted Stock Purchase Plan..... | 737 | 4,100 |
| Net income..... | 258,007 | 195,225 |
| Dividends..... | (40,350) | (36,916) |
| Changes in net assets applicable to Space and Communications Operations..... | (11,044) | (10,901) |
| Foreign currency translation adjustment..... | (1,861) | (1,669) |
| Balance, December 31..... | \$1,715,984 | \$1,409,395 |
| | ===== | ===== |

See notes to unaudited condensed consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)

| | NINE MONTHS ENDED DECEMBER 31, | |
|---|-----------------------------------|-------------|
| | 1995 | 1994 |
| Operating activities: | | |
| Net income..... | \$ 258,007 | \$ 195,225 |
| Deferred income taxes..... | 62,000 | 69,251 |
| Depreciation and amortization..... | 201,497 | 197,091 |
| Changes in assets and liabilities: | | |
| Contracts in process..... | (42,877) | 15,166 |
| Other current assets..... | (4,774) | 45,807 |
| Other assets..... | (9,525) | (10,938) |
| Accounts payable and accrued liabilities..... | 33,354 | (40,715) |
| Income taxes..... | 11,556 | 19,331 |
| Postretirement benefits and other liabilities..... | (16,544) | (5,122) |
| Other..... | (1,556) | (1,858) |
| Net cash provided by operating activities..... | 491,138 | 483,238 |
| Investing activities: | | |
| Acquisition of businesses, net of cash acquired..... | (879,669) | (3,750) |
| Capital expenditures, net..... | (81,227) | (79,994) |
| | (960,896) | (83,744) |
| Financing activities: | | |
| Net borrowings (payments) under revolving credit facilities and commercial paper..... | 399,431 | (1,026,322) |
| Proceeds from borrowings..... | 150,000 | 650,000 |
| Seller financing in connection with acquisition of business..... | | (50,357) |
| Distributions to Space and Communication Operations.. | (11,044) | (10,901) |
| Dividends paid..... | (40,350) | (36,916) |
| Proceeds from common stock issuance for stock options and employee benefit plans..... | 72,770 | 34,900 |
| | 570,807 | (439,596) |
| Net increase (decrease) in cash and cash equivalents... | 101,049 | (40,102) |
| Cash and cash equivalents, beginning of period..... | 125,674 | 238,498 |
| Cash and cash equivalents, end of period..... | \$ 226,723 | \$ 198,396 |
| Supplemental information: | | |
| Interest paid during the period..... | \$ 112,475 | \$ 72,675 |
| Income taxes paid during the period, net of refunds.. | \$ 65,180 | \$ 30,216 |

See notes to unaudited condensed consolidated financial statements.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION:

On January 7, 1996, Loral Corporation ("Loral") and Lockheed Martin Corporation ("Lockheed Martin") entered into a definitive Agreement and Plan of Merger (the "Merger Agreement") among Loral, Lockheed Martin and LAC Acquisition Corporation ("LAC"), a wholly-owned subsidiary of Lockheed Martin, providing for the transactions that will result in Loral becoming a subsidiary of Lockheed Martin and the spin-off by Loral of its direct and indirect interests in Globalstar, L.P. ("Globalstar"), Space Systems/Loral, Inc. ("SS/L") and K & F Industries, Inc. ("K & F"), to Loral Corporation's shareholders (the "Space & Communications Operations") (See Note 6).

The accompanying unaudited condensed consolidated financial statements reflect the portion of Loral that will become a subsidiary of Lockheed Martin (the "Retained Business" or the "Company"). However, the financial position and results of operations, as presented herein may not have been the same as would have occurred had Retained Business and the Space & Communications Operations been independent entities.

All significant intercompany balances and transactions have been eliminated.

Certain other assets of Loral will also be distributed to Space & Communications Operations as of the closing date of the merger. These assets, consisting of certain fixed assets and other miscellaneous assets, have been included in the accompanying financial statements since they have been used principally by the Retained Business.

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules of the Securities and Exchange Commission ("SEC") and, in the opinion of the Company, include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of financial position, results of operations and cash flows. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules. The Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated statements of income for the nine months ended December 31, 1995 are not necessarily indicative of the results to be expected for the full year. It is suggested that these financial statements be read in conjunction with the audited financial statements and notes thereto included elsewhere herein.

Allocation of Certain Expenses

The financial statements reflect the allocations of certain expenses to Space & Communications Operations based upon estimates of actual services performed by the Company. The amount of corporate office expenses allocated to Space & Communications Operations have been estimated based primarily on the allocation methodology prescribed by government regulations pertaining to government contractors, which management believes to be a reasonable allocation method.

Interest Expense

The financial statements exclude interest of \$7,563,000 and \$6,972,000 for the nine months ended December 31, 1995, and 1994, respectively, which has been allocated to Space & Communications Operations based upon the Company's historical weighted average debt cost applied to the Company's average investment in affiliates for each period, which management believes to be a reasonable allocation method.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

2. ACQUISITIONS:

On May 5, 1995, the Company acquired substantially all the assets and liabilities of the Defense Systems operations of Unisys Corporation ("Loral UDS"). The previously reported effective purchase price of \$803,400,000 was adjusted to \$862,609,000, net of cash acquired, as a result of receiving additional net assets. Additionally, acquisition expenses of \$6,000,000 have been recorded. The assets and liabilities recorded in connection with the purchase price allocation are based upon preliminary estimates of fair values. The acquisition was financed through commercial paper borrowings.

This acquisition has been accounted for as a purchase. As such, the condensed consolidated financial statements reflect the results of operations of the acquired entity from the date of acquisition. Had this acquisition occurred on April 1, 1994, the unaudited pro forma sales and net income for the nine months ended December 31, 1994 would have been: \$5,070,500,000 and \$211,500,000; respectively. The unaudited pro forma results, which are based on various assumptions, are not necessarily indicative of what would have occurred had the acquisition been consummated as of April 1, 1994. The pro forma effect of the acquisition of Loral UDS on the results of operations for the nine months ended December 31, 1995, is not material.

The Company has acquired other businesses in the nine months ended December 31, 1995. These acquisitions did not have a material effect on the operations of the Company.

Performance under acquired contracts in process of Loral UDS and prior acquisitions contributed after-tax income of \$16,416,000 and \$36,091,000, net of after-tax interest cost on debt related to the acquisitions and incremental amortization of cost in excess of net assets acquired, of \$67,991,000 and \$60,836,000 for the nine months ended December 31, 1995 and 1994, respectively. The decline in after-tax income reflects a reduction in sales from acquired contracts in process of Loral Federal Systems, acquired effective January 1, 1994, and Loral Vought Systems, acquired on August 31, 1992.

3. CONTRACTS IN PROCESS:

Billings and accumulated costs and profits on long-term contracts, principally U.S. Government, comprise the following:

| | DECEMBER 31, 1995 | MARCH 31, 1995 |
|---|----------------------|-------------------|
| | ----- | ----- |
| | (IN THOUSANDS) | |
| Billed contract receivables..... | \$ 459,965 | \$ 380,240 |
| Unbilled contract receivables..... | 1,667,280 | 1,702,967 |
| Inventoried costs..... | 679,917 | 477,955 |
| | ----- | ----- |
| | 2,807,162 | 2,561,162 |
| Less, unliquidated progress payments..... | (1,431,325) | (1,413,929) |
| | ----- | ----- |
| Net contracts in process..... | \$ 1,375,837 | \$ 1,147,233 |
| | ===== | ===== |

4. DEBT:

In June 1995, the Company issued \$150,000,000 7 5/8% Senior Debentures due 2025 utilizing the balance of the Company's existing shelf registration statement. These securities are not callable and are not subject to any sinking fund provisions. The proceeds were used to reduce the Company's outstanding commercial paper borrowings.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

5. AFFILIATES:

In October 1995, the Company agreed to guarantee \$250,000,000 of bank debt of one of the Company's affiliates, Globalstar. In exchange for the guarantee, the Company will be issued warrants to purchase up to an 8% equity interest in Globalstar on a fully diluted basis. Subject to the approval of its shareholders, the warrants will be issued by Globalstar Telecommunications Limited ("GTL"), a general partner of Globalstar, and upon such approval, GTL will be issued additional warrants representing an approximate 2% equity interest in Globalstar. If GTL shareholder approval is not obtained, Globalstar will issue to the Company warrants to purchase partnership interests representing up to an 8% equity interest in Globalstar and no warrants will be issued to GTL. Globalstar has also agreed to pay the Company a fee equal to 1.5% per annum of the guaranteed amount outstanding under the bank financing. Such fee will be deferred and will be paid with interest commencing 90 days after the expiration of the bank financing. It is expected that Globalstar's other strategic partners will assume a portion of the guarantee. On December 15, 1995, Globalstar entered into a five-year \$250,000,000 credit agreement with a group of banks. (See Note 6).

6. SUBSEQUENT EVENT:

On January 7, 1996, Loral and Lockheed Martin entered into a Merger Agreement among Loral, Lockheed Martin and LAC, providing for the transactions that will result in the defense electronics and systems integration businesses of Loral becoming a subsidiary of Lockheed Martin. Concurrently with the execution of the Merger Agreement, Loral, certain wholly-owned subsidiaries of Loral and Lockheed Martin, entered into the Distribution Agreement, which provides, among other things, for (i) the transfer of Loral's space and communications businesses, including its direct and indirect interests in Globalstar, Space Systems/Loral, Inc. and other affiliated businesses, as well as certain other assets, to Loral Space & Communications Ltd., a Bermuda company ("Loral SpaceCom"), (ii) the distribution of all of the shares of Loral SpaceCom common stock to holders of Loral common stock and persons entitled to acquire shares of Loral common stock on a one-for-one basis (the "Spin-Off") each as of a record date (the "Spin-Off Record Date") to be declared by the Board of Directors of Loral and to be a date on or immediately prior to the consummation of the tender offer, and (iii) the contribution by Lockheed Martin of \$712,400,000, subject to reduction, to Loral SpaceCom, of which \$344,000,000 represents payment for preferred stock, convertible into a 20% equity interest in Loral SpaceCom, to be retained by Lockheed Martin following the Spin-Off and the Merger.

Under the terms of the Merger Agreement, LAC commenced a cash tender offer on January 12, 1996 for all outstanding shares of common stock, par value \$.25 per share, of Loral at a price of \$38.00 per share. Consummation of the tender offer is subject to, among other things, at least two-thirds of the shares of Loral common stock, determined on a fully-diluted basis, being validly tendered and not withdrawn prior to the expiration of the tender offer, applicable regulatory approvals and the occurrence of the Spin-Off Record Date.

Under the terms of the Merger Agreement, Lockheed Martin agreed to assume the obligations of the Company as guarantor under the Credit Agreement described in Note 5 and receive up to 60% of such warrants. In addition, Loral SpaceCom has agreed to (i) indemnify Lockheed Martin, under certain circumstances, for up to \$100,000,000 for its guarantee of Globalstar's obligations under the Credit Agreement; and (ii) use its reasonable efforts to cause Globalstar's partners to assume up to \$150,000,000 of the obligations as guarantor under the Credit Agreement. To the extent the Loral SpaceCom indemnity is applicable, Loral SpaceCom will receive the pro-rata portion of the warrants in respect thereof. To the extent Globalstar's partners agree to assume the obligations as guarantor, rights to a proportionate amount of such warrants will be transferred to them, and the Lockheed Martin guarantee and the Loral SpaceCom indemnification will be reduced accordingly.

LORAL CORPORATION AND SUBSIDIARIES--RETAINED BUSINESS

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(CONTINUED)

Subsequent to the consummation of the merger, the Company will change its fiscal year end from March 31 to December 31 to correspond to the Lockheed Martin year end. For information purposes, the Company's results of operations for the year ended December 31, 1995 have been calculated as follows (in thousands):

| | YEAR ENDED MARCH 31, 1995 | NINE MONTHS ENDED DECEMBER 31, | | YEAR ENDED DECEMBER 31, 1995 |
|--|---------------------------------|-----------------------------------|-------------|------------------------------------|
| | | 1995 | 1994 | |
| | | (ADD) | (DEDUCT) | |
| Sales..... | \$5,484,401 | \$4,719,541 | \$4,025,035 | \$6,178,907 |
| Costs and expenses..... | 4,919,857 | 4,217,329 | 3,643,162 | 5,494,024 |
| Operating income..... | 564,544 | 502,212 | 381,873 | 684,883 |
| Interest and investment income..... | 9,484 | 9,602 | 6,821 | 12,265 |
| Interest expense..... | 96,405 | 95,481 | 73,956 | 117,930 |
| Income before income taxes... | 477,623 | 416,333 | 314,738 | 579,218 |
| Income taxes..... | 181,456 | 158,326 | 119,513 | 220,269 |
| Net income..... | \$ 296,167 | \$ 258,007 | \$ 195,225 | \$ 358,949 |

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the registration statements of Lockheed Martin Corporation on Form S-3 (File No. 33-58067), Form S-8 (File No. 33-58073), Form S-8 (File No. 33-58075), Form S-8 (File No. 33-58077), Form S-8 (File No. 33-58079), Form S-8 (File No. 33-58081), Form S-8 (File No. 33-58083), Form S-8 (File No. 33-58085), Form S-8 (File No. 33-58089), Form S-8 (File No. 33-58097), Form S-8 (File No. 33-57645) and Form S-8 (File No. 33-63155) of our report dated May 11, 1995 (except as to the information presented in Notes 1 and 14, for which the date is January 12, 1996), on our audit of the consolidated financial statements of Loral Corporation and Subsidiaries-Retained Business as of March 31, 1995 and 1994, and for each of the three years in the period ended March 31, 1995, which report is included in this Form 8-K.

New York, New York
April 30, 1996

RESTATED CERTIFICATE OF INCORPORATION
OF
LORAL CORPORATION
UNDER SECTION 807
OF
THE BUSINESS CORPORATION LAW

WE, THE UNDERSIGNED, Bernard L. Schwartz and Michael B. Targoff, being respectively the Chairman of the Board and Secretary of LORAL CORPORATION, do hereby certify:

1) The name of the corporation is LORAL CORPORATION. This Corporation was originally formed under the name LORAL ELECTRONICS CORPORATION.

2) The Certificate of Incorporation of LORAL ELECTRONICS CORPORATION was filed by the Department of State on February 24, 1948.

3) The Certificate of Incorporation is amended to increase the total number of shares of Common Stock the Corporation is authorized to issue from 150,000,000 shares par value \$.25 to 300,000,000 shares par value \$.25 and is also amended to increase the maximum number of Directors as set forth in the By-Laws of the Corporation from 11 to 13.

4) The text of the Certificate of Incorporation is hereby restated as amended to read as herein set forth in full:

FIRST: The name of the Corporation is LORAL CORPORATION.

SECOND: The purposes for which said Corporation is to be formed are as follows:

- (a) To manufacture, assemble, install, buy, sell, design, patent, develop, export, import, exchange, repair and in any and every other

way deal in radio, radio sets and receivers, television, television sets and receivers, amplifiers, sound equipment of any kind or nature whatsoever, devices, machinery, machine parts, tools, dies, engines, motors, appliances and any equipment directly or indirectly related to same and any parts or supplies of any of the above, whether made wholly or partly from metals or from any other material whatsoever, whether operated by electricity or by any other power, cause, or action.

- (b) To acquire, hold, maintain and operate all real estate, plants, machinery, warehouses, apparatus, equipment, franchises, licenses, and permits and do all other things requisite to the prosecution of such business.
- (c) To buy, lease or otherwise acquire the good will, franchises, rights and property of any corporation, person, firm, or association engaged in the same or similar line of business, and to pay for the same in cash, property, the stock or bonds of this company or otherwise, and to hold or in any manner dispose of, the whole or any part of the property so acquired; to conduct, carry on, operate, manage, control, improve and develop the whole or any part of any business or property so acquired, in the name of this Corporation, provided that such business is one that may be carried on by a corporation organized under the act under which this company is incorporated, and to exercise all the powers necessary or convenient in and about the conduct and management of such business.
- (d) To sell or exchange all or any part of the property, assets, good will and undertaking of the company, and to accept in payment or exchange therefor, the stocks, bonds, or other securities of any other corporation, either domestic or foreign.
- (e) To borrow or raise money for the purpose of the company, to secure the same and any interest therein, and for that purpose or any other purpose, subject to the provisions and restrictions hereinafter set forth, to mortgage and charge all or any part of the

present or after-acquired property-rights, or rights and franchises of the company, and to issue notes, bonds, debentures and other evidences of indebtedness.

- (f) To use the surplus profits of said Corporation for the purchase of any of the shares of its capital stock, provided, however, that the capital stock shall not be reduced except in accordance with the requirements of the statute.
- (g) To do all and everything necessary, suitable, useful or proper for the accomplishment of any of the purposes or the attainment of any of the objects or the furtherance of any of the powers hereinbefore set forth, as principal or agent, either alone or in association with other corporations, firms or individuals, and to do every other act or acts, thing or things incidental or appurtenant to, or growing out of, or connected with, any of the aforesaid purposes, objects or powers, or any part or parts thereof, and to do any such acts or things to the same extent and as fully as natural persons might or could do in any part of the world.
- (h) To purchase, sell, lease, manufacture, deal in and deal with every kind of goods, wares and merchandise and every kind of personal property, including patents and patent rights, chattels, easements, privileges and franchises which may lawfully be purchased, sold, produced or dealt in by corporations under the statutes of the State of New York.
- (i) To enter into, make, perform and carry out contracts of every kind, which may be necessary for or incidental to the business of the Corporation, with any person, firm, corporation, private, public or municipal, body politic, under the government of the United States, or any territory, district, protectorate, dependency or insular or other possession or acquisition of the United States, or any foreign government, so far as, and to the extent that the same may be done and performed by a corporation organized under the Stock Corporation Law.

- (j) This Corporation shall have the power to conduct its business in all branches in the State of New York or any other State of the United States and in all foreign countries and generally to do all acts and things and to exercise all the powers, now or hereafter authorized by law, necessary to carry on the business of this Corporation or to promote any of the objects for which this Corporation is formed.
- (k) The objects and powers specified in any clause contained in this Article, shall, except where otherwise expressed, be in no wise limited or restricted by reference to or interference from the terms of any other clause of this Article or any other Article of this Certificate; but the objects and powers specified in each of the clauses of this Article shall be regarded as independent objects, purposes and powers.
- (l) To acquire by purchase or otherwise hold, lease, own, improve, sell, convey, exchange, mortgage and otherwise deal or trade in and dispose of real property and any estate, interest or rights therein; to lend money on bonds secured by mortgage on real and personal property or otherwise; to erect, construct, alter, maintain and improve houses and buildings of every description on any lands of the Corporation or upon any other lands, and to re-build, alter and improve existing houses and buildings thereon.
- (m) The foregoing enumeration of specific powers shall not be held to limit or restrict in any manner, the general powers of the company, and the enjoyment thereof, as conferred by the Laws of the State of New York upon corporations organized under the provisions of the act under which this company is incorporated.

THIRD: The total number of shares which the Corporation shall have authority to issue is 302,000,000 of which 300,000,000 shares shall be Common Stock having a par value of Twenty-Five Cents (\$.25) each, and 2,000,000 shares

shall be Preferred Stock having a par value of One Dollar (\$1.00) each.

The relative powers, preferences and rights and the qualifications, limitations and restrictions on the shares of each class of stock are as follows:

(1) The Preferred Stock may be issued in one or more series from time to time with such distinctive serial designations as may be stated or expressed in the resolutions providing for the issue of such stock from time to time adopted by the Board of Directors; and in such resolution providing for the issue of shares of each particular series, the Board of Directors is expressly authorized to fix:

(a) the annual dividend rate of the particular series, if any, whether the dividends shall be cumulative or non-cumulative and, if such dividends shall be cumulative, the date from which they shall be cumulative;

(b) the redemption and liquidation prices for the particular series;

(c) the voting power, if any, for the particular series and the terms and conditions under which such voting power may be exercised, provided that the shares of all series having voting power shall not have more than one vote each;

(d) the obligation, if any, of the Corporation to retire shares of such series pursuant to a sinking fund or fund of a similar nature or otherwise and the terms and conditions of such obligation; and

(e) the terms and conditions, if any, upon which shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment, if any.

(2) In case the stated dividends and the amounts payable on liquidation to the holders of the Preferred Stock are not paid in full, the shares of all series of such Preferred Stock shall share ratably in the payment of dividends, including accumulations, if any, in accordance with the sums which would be payable on said shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distribution if all sums payable were discharged in full.

(3) The holders of the Preferred Stock shall be entitled to receive, when and as declared by the Board of Directors, but only out of surplus legally available for the payment of dividends, preferential dividends in cash at, but not exceeding, the annual rate fixed for each particular series at the time of the original authorization of the issue of the shares of the particular series, payable quarter-yearly on the fifteenth day of January, April, July and October in each year. The holders of the Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision (3).

(4) So long as any of the Preferred Stock remains outstanding, in no event shall any dividend whatever, whether in cash, stock, or otherwise, be paid or declared, or any distribution be made on the Common Stock, nor shall any shares of the Common Stock be purchased, retired, or otherwise acquired for a consideration by the Corporation (a) unless the full dividends on the Preferred Stock for all past quarter-yearly dividend periods from the respective date or dates dividends became cumulative thereon, shall have been paid and the full dividend thereon for the then current quarter-yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart, (b) unless, if any time the Corporation is obligated

to retire shares of any series of Preferred Stock pursuant to a sinking fund or fund of a similar nature, all arrears, if any, in respect of the retirement of the Preferred Stock of all such series shall have been made good and (c) except out of surplus legally available at the time for payment of such dividends or for the purchase of such stock.

Subject to the foregoing provisions, and not otherwise, such dividends (payable in cash, stock, or otherwise) as may be determined by the Board of Directors may be declared and paid on the Common Stock from time to time out of the remaining surplus of the Corporation, and the Preferred Stock shall not be entitled to participate in any such dividend, whether payable in cash, stock, or otherwise.

(5) The Corporation, at the option of the Board of Directors, may redeem any one or more series at the time outstanding of the Preferred Stock, in whole at any time or in part from time to time, upon notice duly given as hereinafter specified, by paying therefor the applicable redemption price fixed at the time of the original authorization of the issue of shares of such respective series for the shares thereof, together with a sum, in the case of each share so to be redeemed, computed at the annual dividend rate for the series of which the particular share is a part, from the date on which dividends on such shares became cumulative to the date fixed for such redemption, less the aggregate amount of all dividends theretofore and on such redemption date paid thereon.

Notice of every such redemption of the Preferred Stock shall be given by publication at least once in each of two successive calendar weeks in a daily newspaper printed in the English language and published and of general circulation in the City of New York, New York, the first publication to be at least thirty days prior to the date fixed for such redemption. At least thirty days' previous

notice of every such redemption shall also be mailed to the holders of record of the shares to be redeemed at their respective addresses as the same shall appear on the books of the Corporation, and if such notice has been given as herein provided, the failure of any holder to receive such notice shall not affect the validity of the proceedings for the redemption of any share so to be redeemed.

In case of redemption of only part of any series of the Preferred Stock at any time outstanding, the Corporation shall designate by lot the shares so to be redeemed. Subject to the limitations and provisions herein contained, the Board of Directors shall have full power and authority to prescribe the manner in which the drawings by lot shall be conducted and the terms and conditions upon which the Preferred Stock shall be deemed from time to time.

If such notice of redemption shall have been given as hereinbefore provided, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares of the Preferred Stock so called for redemption shall no longer be deemed to be outstanding on and after such redemption date, and all rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption thereof, without interest, and the right to exercise, on or before the date fixed for redemption, privileges of conversion or exchange, if any, not theretofore expiring.

Provided, however, in the alternative, that if such notice of redemption shall have been duly given as hereinbefore provided or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable authorization to give or complete such notice as hereinbefore provided, and if prior to the redemption date specified therein the funds necessary for such redemption shall have been deposited by the Corporation with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York, doing business in the City of New York, New York, having a capital surplus and undivided profits aggregating at least \$5,000,000 according to its last published statement of condition, in trust to be applied to the redemption of the shares so called for redemption, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after the time of such deposit all shares of the Preferred Stock so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest, and the right to exercise, on or before the date fixed for redemption, privileges of conversion or exchange, if any, not theretofore expiring. Any funds so deposited which shall not be required for such redemption because of the exercise of any such right of conversion subsequent to the date of such deposit shall be returned to the Corporation forthwith. Any interest accrued on any funds so deposited shall be paid to the Corporation from time to time.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of six years from such

redemption date shall be released or repaid to the Corporation, after which the holders of the shares so called for redemption shall look only to the Corporation for payment thereof.

Shares of any series of Preferred Stock so redeemed may thereafter, in the discretion of the Board of Directors, be reissued at any time or from time to time to the extent and in any manner not or hereafter permitted by law, except as may be otherwise provided in the resolution or resolutions of the Board of Directors providing for the issue of shares of any such series.

(6) In the event of a liquidation, dissolution or winding up the affairs of the Corporation, whether voluntary or involuntary, then, before any distribution or payment shall be made to the holders of the Common Stock, the holders of each series of the Preferred Stock shall be entitled to be paid in cash the applicable liquidation price per share fixed at the time of the original authorization of the issue of shares of each such respective series and, in the case of each share of the Preferred Stock having cumulative dividend rights, an amount, computed at the annual dividend rate for the series of which the particular share is a part, from the date on which dividends on such share became cumulative to the date fixed for such distribution or payment, less the aggregate amount of all dividends theretofore and on such distribution or payment date paid thereon. If such payment shall have been made in full to the holders of the Preferred Stock, the remaining assets and funds of the Corporation shall be distributed among the holders of the Common Stock according to their respective shares.

FOURTH: No holder of stock of the Corporation shall have any right as such holder to subscribe for or acquire from the Corporation any stock, whether such stock

be a part of the presently authorized stock or a part of any future increase thereof, or any bonds, notes, debentures, or other securities convertible into stock of the Corporation which the Corporation may from time to time issue; and the Corporation shall have the right from time to time, without offering the same to the holders of such stock of any class then outstanding, to issue and sell shares of its stock of any class or any such bonds, notes, debentures or other securities convertible into stock to such person or persons as its Board of Directors from time to time shall determine. As used in this section, the expression "securities convertible into stock" shall be deemed to include all bonds, notes, debentures or other evidence of indebtedness to which are attached, or with which are issued, warrants or other instruments evidencing the right to purchase or otherwise acquire shares of stock of the Corporation.

FIFTH: The office of the Corporation is to be located in the City of New York, County of New York, State of New York.

SIXTH: The duration of the Corporation shall be perpetual.

SEVENTH: The number of its Directors shall be as set forth in the By-Laws of this Corporation but shall at no time be less than three (3) nor more than thirteen (13). At the 1985 annual meeting of stockholders, the directors shall be divided into three classes, as nearly equal in number as possible, with the term of office of the first class to expire at the 1986 annual meeting of stockholders, the term of office of the second class to expire at the 1987 annual meeting of stockholders, and the term of office of the third class to expire at the 1988 annual meeting of stockholders. Increases or decreases in the total number of authorized directors shall be allocated among the classes of directors, so as to retain the number of directors in each class as nearly equal in number as possible. At each annual meeting

of stockholders following such initial classification and election, directors elected to succeed those directors whose terms expire shall be elected for a term of office to expire at the third succeeding annual meeting of stockholders after their election; directors elected to fill a vacancy shall be elected for a term equal to the remaining term of office of the class to which such directors shall have been elected.

Subject to the rights of then-outstanding holders of any class or series of the capital stock of the Corporation entitled to vote generally in the election of directors (hereinafter in this Article SEVENTH and paragraph (1)(a) of Article NINTH of this Certificate of Incorporation such stock is referred to as the "Voting Stock"), newly created directorships resulting from any increase in the authorized number of directors or any vacancies in the Board of Directors resulting from death, resignation, retirement, disqualification, removal from office or other cause may be filled only by a majority vote of the directors then in office, though less than a quorum, and directors so chosen shall hold office for a term expiring at the next regular annual meeting of stockholders at which directors are to be elected. No decrease in the number of authorized directors constituting the entire Board of Directors shall shorten the term of any incumbent director.

Subject to the rights of the holders of any class or series of the Voting Stock then-outstanding, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and only by resolution adopted by the directors or by the affirmative vote of the holders of at least 80 percent of the voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class. Notwithstanding any other provisions of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote, but not in derogation of any special vote of the holders of

any particular class or series of the Voting Stock required by law, this Certificate of Incorporation, of any designation of the rights, powers and preferences of any class or series of Preferred Stock made pursuant to Article THIRD of this Certificate of Incorporation ("Preferred Stock Designation"), the affirmative vote of the holders of at least 80 percent of the voting power of all of the then-outstanding shares of Voting Stock, voting together as a single class, shall be required to alter, amend or repeal this Article SEVENTH, unless such alteration, amendment or repeal has been first approved by a resolution adopted by the Board of Directors.

EIGHTH: The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served, and the address to which the Secretary of State shall mail a copy of such process served upon him is 600 Third Avenue, New York, New York 10016.

NINTH: The following provisions are inserted for the regulation of the business and conduct of the affairs of the Corporation and it is expressly provided that they are intended to be in furtherance and not in limitation or exclusion of the powers conferred by statute:

(1) The Board of Directors of the Corporation shall have power among other things:

- (a) To make, alter, amend and repeal the By-Laws of this Corporation, subject to the power of the holders of the Voting Stock to alter, amend or repeal the By-Laws; provided, however, that notwithstanding any other provisions of this Certificate of Incorporation or any provision of law which might otherwise permit a lesser vote or no vote, but in addition of any affirmative vote of the holders of any particular class or series of the capital stock required by law, this Certificate of Incorporation or any Preferred Stock Designation, the

affirmative vote of the holders of at least 80 percent of the voting power of all of the then-outstanding shares of the Voting Stock, voting together as a single class, shall be required to (i) alter, amend or repeal any provision of the By-Laws which is to the same effect as Article SEVENTH of this Certificate of Incorporation, or which establishes the manner in which a special meeting of the stockholders of this Corporation may be called, or which prescribes the manner in which the By-Laws may be amended, or (ii) alter, amend or repeal any provision of this proviso to this paragraph (1)(a) of Article NINTH, unless such alteration, amendment or repeal has been first approved by the Board of Directors.

- (b) From time to time to determine whether and to what extent and at what times and places and under what conditions and regulations the accounts and books of the Corporation (other than the stock book), or any of them, shall be open to the inspection of the stockholders, and no stockholder shall have any right, except as conferred by statute, to inspect any account, book or document of the Corporation unless expressly so authorized by resolution of the Board of Directors or the stockholders.
- (c) From time to time to fix and determine and to vary the amount of the working capital of the Corporation, to direct and determine whether any, and if any, what part, of the surplus or net profits of the Corporation shall be declared in dividends and paid to the stockholders, and to set apart any of the funds of the Corporation otherwise available for dividends as a reserve or reserves for any proper purpose and to abolish any such reserve in the manner in which it was created.
- (d) By resolution passed by a majority of the whole Board of Directors, to designate three or more of its members to constitute an Executive Committee,

which, to the extent provided in said resolution or in the By-Laws of the Corporation, shall have and may exercise such of the powers of the Board of Directors in the management of the business and affairs of the Corporation as may be lawfully delegated.

(2) In the absence of fraud, no contract or other transaction between the Corporation and any other corporation and no act of the Corporation shall in any way be invalidated or otherwise affected by the fact that any of the Directors of the Corporation are pecuniarily or otherwise interested in, or are directors or officers of, such other corporation. Any Director of the Corporation, individually, or any firm or association of which any Director may be a member, may be a party to, or may be pecuniarily or otherwise interested in any contract or transaction of the Corporation, provided that the fact that he, individually, or such firm or association is so interested shall be disclosed or shall have been known to the Board of Directors, or such members thereof as shall be present at any meeting of the Board of Directors at which action upon any such contract or transaction shall be taken; and any Director of the Corporation who is also a director or officer of such other corporation, or who is so interested, may be counted in determining the existence of a quorum at any meeting of the Board of Directors or of any committee of the Corporation which is authorizing any such contract or transaction, and may vote thereat to authorize any such contract or transaction with like force and effect as if he were not such director or officer of such other corporation or not so interested. Any contract, transaction or act of the Corporation or of the Directors or of any committee, which shall be ratified by a majority of a quorum of the stockholders of the Corporation at any annual meeting, or at any special meeting called for such purpose,

shall, in so far as permitted by law, be as valid and as binding as though ratified by every stockholder of the Corporation.

(3) Any person made a party to any action, suit or proceeding by reason of the fact that he, his testator or intestate, is or was a Director, officer or employee of the Corporation or of any corporation for which he served as such at the request of the Corporation, shall be indemnified by the Corporation against the reasonable expenses, including attorneys' fees, actually and necessarily incurred by him in connection with the defense of such action, suit or proceeding, or in connection with any appeal therein, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such officer, Director or employee is liable for negligence or misconduct in the performance of his duties. Such right of indemnification shall not be deemed exclusive of any other rights to which such Director, officer or employee may be entitled apart herefrom. Any amount payable by way of indemnity, whether the action, suit or proceeding reaches final judgment, or is settled with court approval before final judgment, shall be determined and paid in accordance with the then applicable provisions of the statutes of the State of New York; provided, however, that if such amount is paid otherwise than pursuant to court order or action by the stockholders, the Corporation shall within eighteen months from the date of such payment mail to its stockholders of record at the time entitled to vote for the election of Directors a statement specifying the persons paid, the amounts of the payments and the final disposition of the litigation.

(5) The amendments to this Restated Certificate of Incorporation were authorized and approved by the Board of Directors, followed by a vote of the majority of all

outstanding shares entitled to vote therein under Section 807 of the Business Corporation Law.

IN WITNESS WHEREOF, we have signed this Certificate on the 2nd day of November 1995, and we affirm the statements contained therein as true under penalties of perjury.

/s/ BERNARD L. SCHWARTZ

Bernard L. Schwartz
Chairman of the Board

/s/ MICHAEL B. TARGOFF

Michael B. Targoff
Secretary

CERTIFICATE OF MERGER
OF
LAC ACQUISITION CORPORATION
INTO
LORAL CORPORATION

Under Section 905 of The Business Corporation Law

The undersigned, Frank H. Menaker, Jr. and Stephen M. Piper, the Vice President and General Counsel and the Assistant Secretary, respectively, of Loral Corporation, a domestic corporation duly organized and existing under the laws of the State of New York ("LORAL"), do hereby certify that:

FIRST: (a) The name of each constituent corporation to the merger (the "MERGER") is as follows:

- (i) LORAL CORPORATION (formerly LORAL ELECTRONICS CORPORATION); and
 - (ii) LAC ACQUISITION CORPORATION ("LAC").
- (b) The name of the surviving corporation is LORAL CORPORATION.

SECOND: (a) With respect to Loral, the designation and number of outstanding shares of each class and series as of the close of business on April 22, 1996 (the "SPECIFIED TIME") are as follows:

- (i) 176,162,588 shares of common stock, par value \$0.25 per share (the "LORAL COMMON STOCK"), which Loral Common Stock is entitled to vote; and
- (ii) no shares of Series A Preferred Stock, par value \$1.00 per share ("LORAL PREFERRED STOCK"), which Loral Preferred Stock is entitled to vote.

(b) The number of outstanding shares of Loral Preferred Stock is subject to change prior to the Effective Time (as defined in Paragraph SEVENTH hereof) in the following manner; with respect to Loral Preferred Stock, Loral is party to a Rights Agreement, dated January 10, 1996, as amended (the "RIGHTS AGREEMENT"), between itself and The Bank of New York, as rights agent, pursuant to which, upon the occurrence of certain events specified therein, the rights issued thereunder may entitle the holders of such rights to purchase one one-thousandth

of a share of Loral Preferred Stock on terms specified in such Rights Agreement. In the event that any events occur prior to the Effective Time which entitle the holders of the rights to purchase shares of Loral Preferred Stock and any holders of the right exercise their purchase rights related thereto, the number of shares of Loral Preferred Stock outstanding of Loral Corporation will change.

THIRD: (a) With respect to LAC, the designation and number of outstanding shares of each class and series as of the close of business on the Specified Time are 100 shares of Common Stock, par value \$0.01 per share.

(b) The number of outstanding shares of LAC Common Stock is not subject to change prior to the Effective Time.

FOURTH: Upon the Merger becoming effective, each share of LAC Common Stock issued and outstanding immediately prior to the Effective Time shall, without any action on the part of the holder thereof, be converted into and exchangeable for one share of Loral Common Stock.

FIFTH: The Amended and Restated Certificate of Incorporation of Loral shall be the certificate of incorporation of the surviving corporation; provided, that Article First of the Amended and Restated Certificate of

Incorporation shall be amended to read in its entirety as follows:

"First: The name of the Corporation is Lockheed Martin Tactical Systems, Inc."

SIXTH: Upon the Merger becoming effective;

(i) each Loral Share issued and outstanding immediately prior to the Effective Time (other than (x) Loral Shares held by Lockheed Martin Corporation, a Maryland Corporation ("LMC"), or any subsidiary of LMC, (y) Loral Shares held in the treasury of Loral or held by any subsidiary of Loral (other than a Retained Subsidiary (as defined in the Agreement and Plan of Merger (the "MERGER AGREEMENT"), dated as of January 7, 1996, by and among Loral, LMC and LAC)), and (z) Dissenting Shares (as defined in the Merger Agreement)), shall, by virtue of the Merger and without any action on the part of the holder thereof, be canceled and retired and cease to exist, and shall be converted into the right to receive \$38.00 in cash, without interest thereon, for each such Loral Share upon surrender of the certificate formerly representing ownership of such Loral Share;

(ii) each Loral Share held in the treasury of Loral or held by any subsidiary of Loral (other than a Retained Subsidiary), and each Loral Share held by LMC or any subsidiary of LMC, immediately prior to the Effective Time shall, by virtue

of the Merger and without any action on the part of the holder thereof, be canceled and retired and cease to exist; and

(iii) each Dissenting share shall be converted into the right to receive such consideration as may be determined to be due in respect of such Dissenting Share pursuant to the laws of the State of New York; provided, that any Dissenting Shares outstanding immediately

prior to the Effective Time and held by a stockholder who shall have failed to perfect or shall have effectively withdrawn or lost such holder's right to appraisal and payment under the New York Business Corporation Law, shall be converted into and become exchangeable for the right to receive \$38.00 in cash, without interest thereon.

SEVENTH: The effective time of the Merger is April 29, 1996 (the "EFFECTIVE TIME").

EIGHTH: The certificate of incorporation of Loral Corporation (formerly Loral Electronics Corporation) was filed by the Department of State on February 24, 1948. The certificate of incorporation of LAC Acquisition Corporation was filed by the Department of State on December 8, 1995.

NINTH: The Merger Agreement and the Merger were approved by the Board of Directors of LAC on January 7, 1996.

TENTH: The Merger Agreement and the Merger were approved by LMC, the sole shareholder of LAC on January 7, 1996.

[The remainder of this page is intentionally left blank]

IN WITNESS WHEREOF, the undersigned have duly signed and verified this certificate this 23rd day of April, 1996 under penalty of perjury.

LOCAL CORPORATION

/S/ Frank H. Menaker, Jr.,

Frank H. Menaker, Jr., Vice President
and General Counsel

/s/ Stephen M. Piper

Stephen M. Piper, Assistant Secretary

Verification

State of New York)
) ss:
County of New York)

Stephen M. Piper, being duly sworn, deposes and says that he is the Assistant Secretary of Loral Corporation, that he has read the foregoing certificate and knows the contents thereof, and that the statements contained therein are true.

/s/ Stephen M. Piper

Stephen M. Piper, Assistant Secretary

Sworn to before me this
23rd day of April 1996

/s/ Susan N. Praeger

Notary Public
[ADDRESS OF SUSAN N. PRAEGER APPEARS HERE]