FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

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

For Quarter Ended June 30, 1996 Commission File Number 1-11437

LOCKHEED MARTIN CORPORATION

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| MARYLAND | 52-1893632 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| 6801 Rockledge Drive, Bethesda, MD | 20817 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code (301) 897-6000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES X NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| Class | Outstanding as of July 31, 1996 |
|---|---|
| Common Stock, $1 par value | 200,105,208 |

LOCKHEED MARTIN CORPORATION AND CONSOLIDATED SUBSIDIARIES
FORM 10-Q
For the Quarter Ended June 30, 1996

INDEX

LOCKHEED MARTIN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF EARNINGS
(UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| | (In millions, except per share data) | | | |
| Net sales | $7,076 | $5,606 | $12,185 | $11,251 |
| Costs and expenses: | | | | |
| Cost of sales | 6,383 | 5,136 | 11,020 | 10,326 |
| Merger related and consolidation expenses | - | 525 | - | 690 |
| Earnings (loss) from operations | 693 | (55) | 1,165 | 235 |
| Other income and expenses, net | 1 | 42 | 31 | 64 |
| | 694 | (13) | 1,196 | 299 |
| Interest expense | 189 | 73 | 260 | 152 |
| Earnings (loss) before income taxes | 505 | (86) | 936 | 147 |
| Income tax expense (benefit) | 206 | (33) | 365 | 63 |
| Net earnings (loss) | $ 299 | $ (53) | $ 571 | $ 84 |
| Earnings (loss) per common share: | | | | |
| Assuming no dilution | $ 1.50 | $ (.36) | $ 2.85 | $ .28 |
| Assuming full dilution | $ 1.33 | $ * | $ 2.55 | $ * |
| Cash dividends declared per common share | $ .40 | $ .35 | $ .80 | $ .64 |

* Anti-dilutive

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LOCKHEED MARTIN CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

| | Six Months Ended June 30, | |
|---|---|---|
| | 1996 | 1995 |
| | (In millions) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net earnings | $ 571 | $ 84 |
| Adjustments to reconcile earnings to net cash provided by operating activities: | | |
| Merger related and consolidation expenses | | |
| -Provision | - | 690 |
| -Payments | (145) | (92) |
| Depreciation and amortization | 533 | 465 |
| Changes in operating assets and liabilities | (552) | (888) |
| Net cash provided by operating activities | 407 | 259 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Additions to properties, net of purchased operations | (347) | (269) |
| Business combination with Loral Corporation | (7,313) | - |
| Other acquisitions and investments | (33) | (148) |
| Net cash used for investing activities | (7,693) | (417) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds (repayments) related to debt | 7,159 | (105) |
| Issuances of common shares | 50 | 26 |
| Common stock dividends | (156) | (125) |
| Preferred stock dividends | (30) | (30) |
| Net cash provided by (used for) financing activities | 7,023 | (234) |
| Net decrease in cash and cash equivalents | (263) | (392) |
| Cash and cash equivalents at beginning of period | 653 | 639 |
| Cash and cash equivalents at end of period | $ 390 | $ 247 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LOCKHEED MARTIN CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(UNAUDITED)

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| | (In millions) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 390 | $ 653 |
| Receivables | 5,428 | 3,876 |
| Inventories | 3,057 | 2,804 |
| Deferred income taxes | 999 | 580 |
| Other current assets | 364 | 264 |
| Total current assets | 10,238 | 8,177 |
| Property, plant and equipment | 4,311 | 3,165 |
| Intangible assets related to contracts and programs acquired | 2,206 | 1,808 |
| Cost in excess of net assets acquired | 10,568 | 2,817 |
| Other assets | 3,005 | 1,681 |
| | $30,328 | $17,648 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings | $ 1,498 | $ - |
| Accounts payable | 941 | 787 |
| Customer advances and amounts in excess of costs incurred | 1,944 | 1,570 |
| Salaries, benefits and payroll taxes | 841 | 567 |
| Income taxes | 628 | 292 |
| Current maturities of long-term debt | 175 | 722 |
| Other current liabilities | 2,292 | 1,353 |
| Total current liabilities | 8,319 | 5,291 |
| Long-term debt | 11,086 | 3,010 |
| Post-retirement benefit liabilities | 2,502 | 1,778 |
| Other liabilities | 1,509 | 1,136 |
| Stockholders' equity: | | |
| Series A preferred stock, $50 liquidation preference per share | 1,000 | 1,000 |
| Common stock, $1 par value per share | 199 | 199 |
| Additional paid-in capital | 761 | 683 |
| Retained earnings | 5,223 | 4,838 |
| Unearned ESOP shares | (271) | (287) |
| | 6,912 | 6,433 |
| | $30,328 | $17,648 |

See accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

LOCKHEED MARTIN CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 1996
(UNAUDITED)

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Lockheed Martin Corporation (the Corporation) has continued to follow the accounting policies set forth in the consolidated financial statements filed with the Securities and Exchange Commission (SEC) on March 13, 1996 in its 1995 Annual Report on Form 10-K. In the opinion of management, the interim financial information provided herein reflects all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results of operations for the interim periods. The results of operations for the three months and six months ended June 30, 1996 are not necessarily indicative of the results to be expected for the full year.

Note 2 - Business Combination with Loral Corporation

On January 7, 1996, 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 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 in cash (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 company, which now owns and manages substantially all of Loral's former space and satellite telecommunications interests, and (ii) the acquisition by the Corporation of Loral's defense electronics and systems integration businesses (the Loral Transaction).

In accordance with the terms of the Tender Offer and the Loral Merger Agreement, on April 23, 1996, LAC purchased approximately 94.5 percent of the outstanding shares of common stock of Loral. Subsequent to the consummation of the Tender Offer, on April 29, 1996, LAC merged with and into Loral and 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). As a result of these transactions, Tactical Systems became a wholly-owned subsidiary of the Corporation. The operations of Tactical Systems have been included in the results of operations of the Corporation from April 1, 1996.

The total purchase price paid for Tactical Systems, net of cash balances acquired, was approximately $7.3 billion.

The Loral Transaction has been accounted for using the purchase method of accounting. Preliminary purchase accounting adjustments have been recorded to allocate the purchase price to assets acquired and liabilities assumed, resulting in approximately $7.9 billion of cost in excess of net assets acquired being recorded (which will be amortized ratably over a 40-year period). Such adjustments are subject to change resulting from the completion of future analyses. The Corporation expects to complete and announce its plans for integration and any consolidation activities by the end of 1996.

In connection with the above transactions, the Corporation acquired shares of preferred stock of Loral SpaceCom that are convertible into 20 percent 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 Corporation has recorded its investment in Loral SpaceCom at approximately $460 million.

The following unaudited pro forma combined earnings data presents the results of operations of the Corporation and Tactical Systems for the six months ended June 30, 1996 and 1995, with pro forma adjustments as if the Loral Transaction had been consummated as of the beginning of the periods presented. This pro forma combined earnings data does not purport to be indicative of results of operations that would have resulted if the Loral Transaction had occurred on the applicable dates indicated above. Moreover, this data is not intended to be indicative of future results of operations.

| | Lockheed Martin | Tactical Systems(a) | Pro Forma Adjustments | Pro Forma Combined |
|---|---|---|---|---|
| | (In millions, except per share data) | | | |
| Six Months Ended June 30, 1996 | | | | |
| Net sales | $12,185 | $1,403 | $(43)(c) | $ 13,545 |
| Net earnings | 571 | 126 | (120)(d) | 577 |
| Earnings per common share: | | | | |
| Assuming no dilution | 2.85 | N/A | N/A | 2.88 |
| Assuming full dilution | 2.55 | N/A | N/A | 2.58 |

| | Lockheed Martin | Tactical Systems | Pro Forma Adjustments | Pro Forma Combined |
|---|---|---|---|---|
| | (In millions, except per share data) | | | |
| Six Months Ended June 30, 1995 | | | | |
| Net sales | $11,251 | $3,223 | $ (87)(c) | $14,387 |
| Net earnings | 84(b) | 172 | (240)(d) | 16 |
| Earnings (loss) per common share: | | | | |
| Assuming no dilution | .28 | N/A | N/A | (.07) |
| Assuming full dilution | * | N/A | N/A | * |

(a) Financial data presented represents the operating results of Tactical Systems for the first quarter of 1996. The operating results of Tactical Systems for the second quarter of 1996 have been included in the Lockheed Martin financial data.

(b) Net earnings includes the effect of the Corporation's merger related and consolidation expenses recorded in 1995 related to the formation of Lockheed Martin. The after-tax effect of these charges was $436 million, or $1.96 per common share assuming full dilution.

* Anti-dilutive. Calculated earnings per common share were $.38 for Lockheed Martin and $.07 for Pro Forma Combined, respectively.

The unaudited pro forma adjustments described below are based upon preliminary estimates and certain assumptions that management of the Corporation believes are reasonable in the circumstances. Such adjustments are subject to change resulting from the completion of future analyses.

(c) To eliminate intercompany sales.

(d) To record the amortization of estimated intangible assets and additional estimated interest expense resulting from the Loral Transaction, net of the effects of income taxes.

The funds for the consummation of the Loral Transaction 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. The Credit Facilities consisted of a 364-day unsecured revolving credit facility in the amount of $5 billion (the Short-Term Facility) and a 5-year unsecured revolving credit facility in the amount of $5 billion (the 5-Year Facility). In connection with the establishment of the Credit Facilities, the Corporation and Loral each terminated their previously existing revolving credit facilities. Approximately $6 billion of commercial paper was issued and approximately $1 billion was borrowed under the 5-Year Facility to finance the Loral Transaction on the closing date. During the second quarter of 1996, the Corporation issued $5 billion in debt securities (see Note 4). The net proceeds from the sale of the debt securities were used to repay the $1 billion borrowed under the 5-Year Facility and to reduce the amount of commercial paper outstanding. On July 26, 1996, the Corporation terminated the Short-Term Facility.

In connection with the Loral Transaction, 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 is $250 million, subject to the assumption by certain of the Globalstar partners of a portion of the Corporation's obligations as guarantor.

Note 3 - Inventories

| | June 30, 1996 | December 31, 1995 |
|---|---|---|
| | (In millions) | |
| Work in process, primarily on long-term contracts and programs in progress | $ 4,741 | $ 3,721 |
| Less customer advances and progress payments | (2,607) | (1,772) |
| | 2,134 | 1,949 |
| Other inventories | 923 | 855 |
| | $ 3,057 | $ 2,804 |

Note 4 - Debt

During the second quarter of 1996, the Corporation issued $5 billion of long-term fixed rate debt securities, the entire amount registered under the Corporation's shelf registration statement which became effective on May 10, 1996. These Notes and Debentures range in maturity from two years to 40 years, with interest rates ranging from 6.55% to 7.75%. The registered holder of each 40-year Debenture may elect, between March 1 and April 1, 2008, to have the Debenture, or some portion thereof, repaid by the Corporation on May 1, 2008. The debt securities are guaranteed by Tactical Systems (see Note 5).

In February 1996, the Corporation entered into interest rate hedging agreements to offset a portion of its exposure to rising interest rates related to the anticipated long-term financings. These agreements were closed in the second quarter of 1996 in connection with the Corporation's issuance of its long-term debt securities. The Corporation realized a gain of approximately $150 million on the closing of these agreements, which has been deferred and is being amortized and recognized as an adjustment to interest expense over the terms of the related debt obligations.

At the effective date of the Loral Transaction, the Corporation assumed approximately $1.9 billion of debt obligations of the former Loral Corporation.

Commercial paper borrowings of approximately $3.5 billion were outstanding at June 30, 1996. Approximately $2 billion of these borrowings were classified as long-term debt in the Corporation's consolidated condensed balance sheet, based on management's ability and intention to maintain this debt outstanding for at least one year.

Each bank's obligation to make loans under the 5-Year Facility 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.

The Corporation's total interest payments were $228 million and $138 million for the six months ended June 30, 1996 and 1995, respectively.

Note 5 - Summarized Consolidating Financial Information

The $5 billion of debt obligations issued by the Corporation in the second quarter of 1996 are guaranteed by Tactical Systems. In accordance with SEC disclosure requirements, summarized consolidating financial information follows:

| | Lockheed Martin(a) | Tactical Systems(b) | Non-Guarantor Entities | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| **Earnings Data** | | | | | |
| For the three months ended June 30, 1996 | | | | | |
| Net sales | $ 4,800 | $ 87 | $ 2,615 | $ (426) | $ 7,076 |
| Earnings from operations | 587 | 14 | 107 | (15) | 693 |
| Net earnings (loss) | 299 | 90 | (15) | (75) | 299 |

| | Lockheed Martin(a) | Tactical Systems(b) | Non-Guarantor Entities | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | | | (In millions) | | |
| **Earnings Data (continued)** | | | | | |
| For the three months ended June 30, 1995 | | | | | |
| Net sales | $ 4,633 | $ - | $ 1,099 | $ (126) | $ 5,606 |
| Earnings (loss) from operations | (126) | - | 87 | (16) | (55) |
| Net earnings (loss) | (53) | - | 78 | (78) | (53) |
| For the six months ended June 30, 1996 | | | | | |
| Net sales | $ 9,116 | $ 87 | $ 3,624 | $ (642) | $ 12,185 |
| Earnings from operations | 956 | 14 | 229 | (34) | 1,165 |
| Net earnings | 571 | 90 | 57 | (147) | 571 |
| For the six months ended June 30, 1995 | | | | | |
| Net sales | $ 9,459 | $ - | $ 2,058 | $ (266) | $ 11,251 |
| Earnings from operations | 114 | - | 141 | (20) | 235 |
| Net earnings | 84 | - | 135 | (135) | 84 |

| | Lockheed Martin(a) | Tactical Systems(b) | Non-Guarantor Entities | Eliminations | Consolidated |
|---|---|---|---|---|---|
| **Cash Flows Data** | | | | | |
| For the six months ended June 30, 1996 | | | | | |
| Net cash provided by (used for): | | | | | |
| Operating activities | $ 199 | $ 52 | $ 156 | $ - | $ 407 |
| Investing activities | (7,347) | (231) | (115) | - | (7,693) |
| Financing activities | 6,799 | 144 | 80 | - | 7,023 |
| Net increase (decrease) in cash and cash equivalents | (349) | (35) | 121 | - | (263) |
| Cash and cash equivalents: | | | | | |
| Beginning of period | 401 | 39 | 213 | - | 653 |
| End of period | $ 52 | $ 4 | $ 334 | $ - | $ 390 |

(In millions)

## Cash Flows Data (continued)

For the six months ended June 30, 1995

| | Lockheed Martin(a) | Tactical Systems(b) | Non-Guarantor Entities | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Net cash provided by (used for): | $ 107 | $ - | $ 152 | $ - | $ 259 |
| Operating activities | (226) | - | (191) | - | (417) |
| Investing activities | | | | | |
| Financing activities | (236) | - | 2 | - | (234) |
| Net decrease in cash and cash equivalents | (355) | - | (37) | - | (392) |
| Cash and cash equivalents: | | | | | |
| Beginning of period | | | | | |
| End of period | 652 | - | (13) | - | 639 |
| | $ 297 | $ - | $ (50) | $ - | $ 247 |

## Balance Sheet Data

As of June 30, 1996

| | | Lockheed Martin(a) | Tactical Systems(b) | Non-Guarantor Entities | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| Current assets | - Public | $ 6,299 | $ 511 | $ 3,428 | $ - | $10,238 |
| | - Affiliated (c) | 806 | 25 | 236 | (1,067) | - |
| Noncurrent assets | - Public | 8,639 | 643 | 10,808 | - | 20,090 |
| | - Affiliated (c) | 9,211 | 9,921 | 4,530 | (23,662) | - |
| Current liabilities | - Public | 4,735 | 97 | 3,487 | - | 8,319 |
| | - Affiliated (c) | 503 | 526 | 38 | (1,067) | - |
| Long-term debt | | 9,744 | 1,204 | 138 | - | 11,086 |
| Other noncurrent liabilities | | | | | | |
| | - Public | 3,061 | 932 | 18 | - | 4,011 |
| | - Affiliated (c) | - | - | - | - | - |
| Equity | | 6,912 | 8,341 | 15,321 | (23,662) | 6,912 |

| | | Lockheed Martin(a) | Tactical Systems(b) | Non-Guarantor Entities | Eliminations | Consolidated |
|---|---|---|---|---|---|---|
| | | | | (In millions) | | |
| **Balance Sheet Data (continued)** | | | | | | |
| As of December 31, 1995 | | | | | | |
| Current assets | - Public | $6,484 | $ - | $1,693 | $ - | $8,177 |
| | - Affiliated (c) | 262 | - | 448 | (710) | - |
| Noncurrent assets | - Public | 8,281 | - | 1,190 | - | 9,471 |
| | - Affiliated (c) | 1,999 | - | 4,597 | (6,596) | - |
| Current liabilities | - Public | 4,430 | - | 861 | - | 5,291 |
| | - Affiliated (c) | 448 | - | 262 | (710) | - |
| Long-term debt | | 2,863 | - | 147 | - | 3,010 |
| Other noncurrent liabilities | | | | | | |
| | - Public | 2,852 | - | 62 | - | 2,914 |
| | - Affiliated (c) | - | - | - | - | - |
| Equity | | 6,433 | - | 6,596 | (6,596) | 6,433 |

(a) Data is related to the parent company only.

(b) Data is related to Tactical Systems, Inc. only and pertains to operations from April 1, 1996.

(c) Amounts represent activity with Lockheed Martin affiliated companies.

Note 6 - Contingencies

The Corporation or its subsidiaries are parties to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, that have the potential to affect the results of the Corporation's operations or its financial position. These matters include the following items which were disclosed in the consolidated financial statements in the Corporation's 1995 Annual Report on Form 10-K.

In 1991, the Corporation entered into a consent decree with the U.S. Environmental Protection Agency (EPA) relating to certain property in Burbank, California, which obligates the Corporation to design and construct facilities to monitor, extract, and treat groundwater and operate and maintain such facilities for approximately eight years. The Corporation estimates that expenditures required to comply with the terms of the consent decree over the remaining term of the project will be approximately $50 million.

The Corporation has also been operating under a cleanup and abatement order from the California Regional Water Quality Control Board affecting its facilities in Burbank, California. This order requires site assessment and action to abate groundwater contamination by a combination of groundwater and soil cleanup and treatment. Based on experience derived from initial remediation activities, the Corporation estimates the anticipated cost of these actions in excess of the requirements under the EPA consent decree to approximate $155 million over the remaining term of the project; however, this estimate is likely to change as work progresses and additional experience is gained.

In addition, the Corporation is involved in many other proceedings and potential proceedings relating to environmental matters, including disposal of hazardous wastes and soil and water contamination. The extent of the Corporation's financial exposure cannot in all cases be reasonably estimated at this time. A liability of approximately $335 million for those cases in which an estimate of financial exposure can be determined has been recorded.

Under an agreement with the U.S. Government, the Burbank groundwater treatment and soil remediation expenditures referenced above are being allocated to the Corporation's operations as general and administrative costs and, under existing government regulations, these and other environmental expenditures related to U.S. Government business, after deducting any recoveries from insurance or other responsible parties, are allowable in establishing the prices of the Corporation's products and services. As a result, a substantial portion of the expenditures will be reflected in the Corporation's sales and cost of sales pursuant to U.S. Government agreement or regulation. The Corporation has recorded an asset for the portion of these costs that are probable of future recovery in pricing of the Corporation's products and services for U.S. Government business. The portion that is expected to be allocated to commercial business has been reflected in cost of sales. The recorded amounts do not reflect the possible recovery of portions of the environmental costs through insurance policy coverage or from other potentially responsible parties to the contamination, which the Corporation is pursuing as required by agreement and U.S. Government regulation. Any such recoveries, when received, would reduce the Corporation's liability as well as the allocated amounts to be included in the Corporation's U.S. Government sales and cost of sales.

The Corporation or its subsidiaries are parties to or have property subject to litigation and other proceedings, including matters arising under provisions relating to the protection of the environment, in addition to those described above. In the opinion of management and counsel, the probability is remote that the outcome of litigation and proceedings will have a material adverse effect on the results of the Corporation's operations or its financial position.

Note 7 - Other

During the second quarter of 1996, the Corporation's Board of Directors terminated the systematic common stock repurchase plan which had been established to counter the future dilutive effect of common stock issued by the Corporation under its 1995 Omnibus Performance Award Plan. A separate program authorized in 1995 for the repurchase of up to nine million common shares to counter the dilutive effect of common stock issued under the Corporation's other benefit and compensation programs and for other purposes related to such plans remains in effect. No common shares have been repurchased by the Corporation during 1996.

During the first quarter of 1995, the Corporation recorded a pretax charge of $165 million for merger related expenses in connection with the formation of the Corporation. During the second quarter of 1995, the Corporation recorded a pretax charge of $525 million in conjunction with a corporate-wide consolidation plan under which the Corporation would close certain facilities and laboratories and eliminate duplicative field offices in the U.S. and abroad, eliminating up to approximately 12,000 positions. The charge represented the portion of the accrued costs and net realizable value adjustments that were not probable of recovery. The after-tax effect of these charges was $436 million, or $1.96 per share assuming full dilution. As of June 30, 1996, cumulative merger related and consolidation expenditures were approximately $350 million which primarily relate to the formation of the Corporation, the elimination of positions and the closure of foreign and domestic marketing offices.

The Corporation's federal and foreign income tax payments were approximately $610 million and $154 million for the six months ended June 30, 1996 and 1995, respectively.

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", effective January 1, 1996. SFAS No. 121 requires that certain long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Additionally, SFAS No. 121 requires that certain long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The adoption of this standard did not have a material effect on the Corporation's consolidated earnings and financial condition.

On July 26, 1996, Martin Marietta Materials, Inc. (Materials) filed a registration statement with the SEC outlining a split-off plan for the 81 percent interest in Materials currently owned by the Corporation. The proposed split-off would be achieved through an exchange offer whereby the Corporation's stockholders would be given an opportunity to exchange some or all of their Lockheed Martin common stock for Materials common stock currently held by the Corporation. The exchange rate will not be set until immediately prior to the mailing of the Offering Circular-Prospectus pertaining to the exchange offer. The split-off, which is expected to be completed by the end of 1996 on a tax-free basis, is dependent, among other things, on market conditions. The Corporation anticipates that the completion of the split-off will result in the recognition of a gain.

BUSINESS COMBINATION WITH LORAL CORPORATION

On January 7, 1996, 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 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 in cash (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 company which now owns and manages substantially all of Loral's former space and satellite telecommunications interests, and (ii) the acquisition by the Corporation of Loral's defense electronics and systems integration businesses (the Loral Transaction).

In accordance with the terms of the Tender Offer and the Loral Merger Agreement, on April 23, 1996, LAC purchased approximately 94.5 percent of the outstanding shares of common stock of Loral. Subsequent to the consummation of the Tender Offer, on April 29, 1996, LAC merged with and into Loral, and each remaining share of common stock of Loral not owned by LAC was converted into the right to receive $38. Each outstanding share of LAC was converted into shares of common stock of Loral, and Loral changed its name to Lockheed Martin Tactical Systems, Inc. (Tactical Systems). As a result of these transactions, Tactical Systems became a wholly-owned subsidiary of the Corporation. The operations of Tactical Systems have been included in the results of operations of the Corporation from April 1, 1996. The total purchase price paid for Tactical Systems, net of cash balances acquired, was approximately $7.3 billion.

The Loral Transaction has been accounted for using the purchase method of accounting. Preliminary purchase accounting adjustments have been recorded to allocate the purchase price to assets acquired and liabilities assumed, resulting in approximately $7.9 billion of cost in excess of net assets acquired being recorded (which will be amortized ratably over a 40-year period). Such adjustments are subject to change upon the completion of future analyses. The Corporation expects to complete and announce its plans for integration and any consolidation activities by the end of 1996.

In connection with the above transactions, the Corporation acquired shares of preferred stock of Loral SpaceCom that are convertible into 20 percent 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 Corporation has recorded its investment in Loral SpaceCom at approximately $460 million.

The funds for the consummation of the Loral Transaction 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. The Credit Facilities consisted of a 364-day unsecured revolving credit facility in the amount of $5 billion (the Short-Term Facility) and a 5-year unsecured revolving credit facility in the amount of $5 billion (the 5-Year Facility). Approximately $6 billion of commercial paper was issued and approximately $1 billion was borrowed under the 5-Year Facility to finance the Loral Transaction on the closing date. During the second quarter of 1996, the Corporation issued $5 billion in debt securities (see Liquidity and Capital Resources section below). The net proceeds from the sale of the debt securities were used to repay the $1 billion borrowed under the 5-Year Facility and to reduce the amount of commercial paper outstanding. On July 26, 1996, the Corporation terminated the $5 billion Short-Term Facility.

RESULTS OF OPERATIONS

The Corporation's operating cycle is long-term and involves various types of production contracts and varying production delivery schedules. Accordingly, results of a particular quarter, or quarter-to-quarter comparisons of recorded sales and profits, may not be indicative of future operating results. The following comparative analysis should be viewed in this context.

The consolidated results of operations for the Corporation for both the quarter and six months ended June 30, 1996 include the operations of Tactical Systems from April 1, 1996. The operations of Tactical Systems have been reflected in the Information & Technology Services and Electronics segments.

Consolidated net sales for the second quarter of 1996 were $7.1 billion, which represents a 26 percent increase from the $5.6 billion recorded for the comparable period of 1995. Consolidated net sales for the six months ended June 30, 1996 were $12.2 billion, an eight percent increase over the $11.3 billion reported for the same period in 1995. Increases in the Information & Technology Services and Electronics segments, which are due principally to the inclusion of the results of operations of Tactical Systems as discussed above, more than offset the decrease in sales in the Aeronautics segment.

The Corporation's operating profit (earnings before interest and taxes) for the second quarter of 1996 was $694 million versus a loss of $13 million as reported for the comparable period in 1995. During the second quarter of 1995, the Corporation recorded a pretax charge of $525 million in conjunction with a corporate-wide consolidation plan under which the Corporation would close certain facilities and laboratories and eliminate duplicative field offices in the U.S. and abroad. Excluding the effect of this charge in 1995, operating profit for the second quarter of 1996 increased by 36 percent from the comparable 1995 period. Operating profit for the six months ended June 30, 1996 was $1,196 million versus $299 million as reported for the comparable period in 1995. The 1995 period includes the effect of the consolidation charge discussed above as well as a $165 million pretax charge taken in the first quarter of 1995 for merger related expenses. Excluding the effect of these charges in 1995, operating profit for the six months ended June 30, 1996 increased by 21 percent from the comparable 1995 period. As was the case with net sales, increases in the Information & Technology Services and Electronics segments, which are due principally to the inclusion of the results of operations of Tactical Systems from April 1, 1996, more than offset the decrease reported in the Aeronautics segment.

Net earnings for the second quarter of 1996 were $299 million, or $1.33 per common share assuming full dilution. The Corporation recorded a net loss for the second quarter of 1995 of $53 million due to the after-tax effect of the consolidation charge identified above. Excluding the effect of this nonrecurring charge in 1995, net earnings for the second quarter of 1995 would have been $273 million, or $1.22 per common share assuming full dilution. Net earnings for the six months ended June 30, 1996 were $571 million, or $2.55 per common share assuming full dilution. Net earnings for the six months ended June 30, 1995 of $84 million include the after-tax effects of the merger related and consolidation expenses described above. Excluding the effect of these charges in 1995, net earnings and earnings per common share assuming full dilution would have been $520 million and $2.34 per share, respectively.

The effective income tax rates for the quarter and six months ended June 30, 1996 were approximately 41 percent and 39 percent, respectively. Excluding the effect of the merger related and consolidation expenses recorded during 1995, the comparable effective income tax rate for the quarter and six months ended June 30, 1995 was 38 percent. The effective rates for each period were higher than the statutory corporate federal income tax rate principally due to the nondeductibility for tax purposes of certain costs in excess of net assets acquired associated with acquisition activities.

The Corporation's backlog of undelivered orders at June 30, 1996 was approximately $50.9 billion, a 24 percent increase from the $41.1 billion reported at December 31, 1995, primarily due to the addition of the backlog related to Tactical Systems.

The following table displays second quarter and year-to-date net sales for the Corporation's business segments.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| | (In millions) | | | |
| Net Sales: | | | | |
| Space & Strategic Missiles | $ 1,994 | $ 1,895 | $ 3,664 | $ 3,747 |
| Aeronautics | 1,201 | 1,474 | 2,500 | 3,242 |
| Information & Technology Services | 1,537 | 1,160 | 2,630 | 2,195 |
| Electronics | 2,098 | 834 | 2,965 | 1,650 |
| Energy, Materials and Other | 246 | 243 | 426 | 417 |
| | $ 7,076 | $ 5,606 | $12,185 | $11,251 |

The following table displays the pretax impact of the merger related and consolidation expenses reflected in operating profit for the quarter and six months ended June 30, 1995 as identified to each segment.

| | Three Months Ended June 30, 1995 | Six Months Ended June 30, 1995 |
|---|---|---|
| | (In millions) | |
| Merger Related and Consolidation Expenses: | | |
| Space & Strategic Missiles | $ 263 | $ 263 |
| Aeronautics | 138 | 138 |
| Information & Technology Services | 24 | 24 |
| Electronics | 93 | 93 |
| Energy, Materials and Other | 7 | 172 |
| | $ 525 | $ 690 |

The following table depicts second quarter and year-to-date operating profit, excluding 1995 merger related and consolidation expenses, for the Corporation's business segments. The subsequent discussion of significant operating results of each business segment excludes the effect of these nonrecurring expenses.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1996 | 1995 | 1996 | 1995 |
| | (In millions) | | | |
| Operating Profit, Excluding 1995 Merger Related and Consolidation Expenses: | | | | |
| Space & Strategic Missiles | $ 279 | $ 166 | $ 505 | $ 347 |
| Aeronautics | 122 | 134 | 230 | 274 |
| Information & Technology Services | 95 | 61 | 146 | 108 |
| Electronics | 155 | 85 | 249 | 173 |
| Energy, Materials and Other | 43 | 66 | 66 | 87 |
| | $ 694 | $ 512 | $1,196 | $ 989 |

Second quarter Space & Strategic Missiles net sales increased five percent in 1996 compared to 1995. Much of this increase was attributable to increases in commercial satellite sales volume and in classified program activity. These increases were somewhat offset by the reduced number of Atlas launches (two launches in the second quarter of 1996 compared to three launches in the corresponding 1995 period) and by reduced fleet ballistic missile production volume. Year-to-date 1996 net sales, however, have decreased slightly compared with the prior year, primarily because of the timing of Atlas launches (three launches in 1996 compared to six launches in 1995). Second quarter and year-to-date 1996 operating profit increased by 68 percent and 46 percent, respectively, compared to the corresponding 1995 periods, principally as a result of timing of the recognition of award fees on certain space programs and from increased volume and improved margins on certain military space programs.

Second quarter and year-to-date 1996 Aeronautics net sales decreased 19 percent and 23 percent, respectively, from the comparable 1995 amounts. These decreases resulted from fewer deliveries of F-16 fighter aircraft and C-130 airlift aircraft, as well as the completion during 1995 of P-3 maritime patrol aircraft deliveries to the Republic of Korea. Operating profit for second quarter and year-to-date 1996 decreased by nine percent and 16 percent, respectively, from the comparable 1995 amounts as a result of the volume decreases noted above. However, operating margins in both 1996 periods improved over the corresponding 1995 periods.

Information & Technology Services net sales and operating profit for the second quarter and year-to-date 1996 increased significantly from the comparable 1995 amounts due to the inclusion of the operations of certain Tactical Systems companies from April 1, 1996. Net sales for the second quarter and year-to-date 1996, excluding the effect of Tactical Systems in 1996, increased by two percent and four percent, respectively, over the comparable 1995 amounts. These increases were principally the result of increased sales volume for commercial products and various classified activities. Second quarter and year-to-date 1996 operating profit, excluding the effect of Tactical Systems in 1996, were 13 percent and five percent lower, respectively, than the corresponding 1995 amounts. These decreases were primarily attributable to lower margins on commercial products due to competitive pressures.

Net sales and operating profit of Electronics for the second quarter and year-to-date 1996 also increased significantly from the comparable 1995 amounts due to the inclusion of the operations of certain Tactical Systems companies from April 1, 1996. Second quarter and year-to-date 1996 net sales, excluding the effect of Tactical Systems in 1996, were eight percent and seven percent higher, respectively, than the comparable 1995 amounts. These increases were primarily due to increases in volume in several programs and the inclusion of the results of operations of the former aircraft controls business of General Electric Company, which the Corporation acquired in the fourth quarter of 1995. Operating profits for the second quarter and year-to-date 1996 periods, excluding the effect of Tactical Systems in 1996, were comparable with the corresponding 1995 periods, as the sales volume increases discussed above were offset by reductions in royalty income activities resulting from certain patent expirations.

Net sales for the second quarter and year-to-date 1996 in the Energy, Materials and Other segment were comparable to the same periods in 1995. Operating profit for this segment was slightly lower for both the second quarter and the year-to-date period due to the timing of award fees on various management contracts. The Corporation has a $180 million fixed-price contract with DOE to clean up contaminated waste found in Pit 9, located on the Idaho National Engineering Laboratory reservation. The program is experiencing schedule delays and technical and cost issues including, among other things, the design and construction/acquisition of processing facilities and equipment. The Corporation is currently involved in discussions with DOE on these contract issues.

## LIQUIDITY AND CAPITAL RESOURCES

During the first six months of 1996, approximately $407 million of cash was provided by operating activities, compared with $259 million during the same period in 1995. Increases in cash generated from operations in the first six months of 1996 more than offset increased interest and income tax payments made during that period. The increase in cash used for investing activities during the first six months of 1996 was primarily due to the payment of approximately $7.3 billion in connection with the Loral Transaction. Net cash provided by financing activities was $7 billion in the first six months of 1996, principally reflecting the issuance of debt to finance the Loral Transaction, versus $234 million used for financing activities for the same period of 1995.

Total debt, including short-term borrowings, amounted to approximately 65 percent of total capitalization at June 30, 1996, an increase from the 37 percent reported at December 31, 1995. As previously discussed, in connection with the consummation of the Loral Transaction, approximately $7 billion of debt was incurred through the issuance of commercial paper by the Corporation and through borrowings under the 5-Year Facility. During the second quarter of 1996, the Corporation issued $5 billion of long-term debt securities, the entire amount registered under the Corporation's shelf registration statement which became effective on May 10, 1996. The net proceeds from the sale of the debt securities were used to repay the $1 billion borrowed under the 5-Year Facility and to reduce the amount of commercial paper outstanding. These Notes and Debentures range in maturity from two years to 40 years, with interest rates ranging from 6.55% to 7.75%. The debt securities are guaranteed by Tactical Systems.

At the effective date of the Loral Transaction, the Corporation assumed approximately $1.9 billion of debt obligations of the former Loral Corporation.

Commercial paper borrowings of approximately $3.5 billion were outstanding at June 30, 1996. Approximately $2 billion of these borrowings were classified as long-term debt in the Corporation's consolidated condensed balance sheet, based on management's ability and intention to maintain this debt outstanding for at least one year.

In February 1996, the Corporation entered into interest rate hedging agreements to offset a portion of its exposure to rising interest rates related to the anticipated long-term financings. These agreements were closed in the second quarter of 1996 in connection with the Corporation's issuance of its long-term debt securities. The Corporation realized a gain of approximately $150 million on the closing of these agreements, which has been deferred and is being amortized and recognized as an adjustment to interest expense over the terms of the related debt obligations.

In connection with the Loral Transaction, 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 is $250 million, subject to the assumption by certain of the Globalstar partners of a portion of the Corporation's obligations as guarantor.

The Corporation held cash and cash equivalent balances of $390 million and $653 million at June 30, 1996 and December 31, 1995, respectively. Stockholders' equity at the end of June 30, 1996 was approximately $6.9 billion, a $479 million increase from the balance at the end of 1995. The increase was principally due to year-to-date 1996 earnings net of dividends paid and the issuance of new shares upon exercise of employee stock options. Cash dividends per common share were increased in the first quarter of 1996 from $.35 to $.40 in accordance with the settlement of certain class action lawsuits filed on behalf of the former shareholders of Lockheed Corporation and Martin Marietta Corporation. In accordance with the provisions of the settlement, this higher quarterly dividend rate was paid for the second quarter and will be paid for the third quarter of 1996.

On July 26, 1996, Martin Marietta Materials, Inc. (Materials) filed a registration statement with the SEC outlining a split-off plan for the 81 percent interest in Materials currently owned by the Corporation. The proposed split-off would be achieved through an exchange offer whereby the Corporation's stockholders would be given an opportunity to exchange some or all of their Lockheed Martin common stock for Materials common stock currently held by the Corporation. The exchange rate will not be set until immediately prior to the mailing of the Offering Circular-Prospectus pertaining to the exchange offer. The split-off, which is expected to be completed by the end of 1996 on a tax-free basis, is dependent, among other things, on market conditions. The Corporation anticipates that the completion of the split-off will result in the recognition of a gain. Following the exchange, and consistent with the Corporation's plan to generate cash to reduce debt, management anticipates that, subject to prevailing financial, market and economic conditions, the Corporation will divest other non-core businesses and will consider making a public offering of shares of Lockheed Martin stock to further reduce outstanding debt.

The Corporation expects to complete and announce its plans for integration and any consolidation activities related to the Loral Transaction by the end of 1996.

Cash on hand and temporarily invested, internally generated funds, and available financing resources are expected to be sufficient to meet anticipated operating and debt service requirements and discretionary investment needs.

OTHER MATTERS

During the second quarter of 1996, the Corporation's Board of Directors terminated the systematic common stock repurchase plan which had been established to counter the future dilutive effect of common stock issued by the Corporation under its 1995 Omnibus Performance Award Plan.  A separate program authorized in 1995 for the repurchase of up to nine million common shares to counter the dilutive effect of common stock issued under the Corporation's other benefit and compensation programs and for other purposes related to such plans remains in effect.  No common shares have been repurchased by the Corporation during 1996.

The Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," effective January 1, 1996. SFAS No. 121 requires that certain long-lived assets to be held and used be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Additionally, SFAS No. 121 requires that certain long-lived assets to be disposed of be reported at the lower of carrying amount or fair value less cost to sell. The adoption of this standard did not have a material effect on the Corporation's consolidated earnings and financial condition.

FORWARD LOOKING STATEMENTS

This Form 10-Q contains statements which, to the extent that 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 differ 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 Risk" and the discussion of "Government Contracts and Regulations" on pages 10 through 12 and pages 13 through 14, respectively, of the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 (Form 10-K); "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 44 through 56 of the Annual Report and "Note 1 - Summary of Significant Accounting Policies" and "Note 14 - Commitments and Contingencies" of the Notes to Consolidated Financial Statements on pages 62 through 63 and 73 through 74, respectively, of the Audited Consolidated Financial Statements included in the Annual Report and incorporated by reference into the Form 10-K; and "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 16 through 24 of this Form 10-Q and "Note 2 - Business Combination with Loral Corporation" and "Note 6 - Contingencies" of the Notes to Unaudited Condensed Consolidated Financial Statements on pages 6 through 9 and pages 13 through 14, respectively, of the Unaudited Condensed Consolidated Financial Statements included in this Form 10-Q.

## Item 1. Legal Proceedings

The Corporation is primarily engaged in providing products and services under contracts with the United States Government and, to a lesser degree, under foreign government contracts, some of which are funded by the United States Government. All such contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the United States Government investigate whether the Corporation's operations are being conducted in accordance with these requirements. Such investigations could result in administrative, civil or criminal liabilities, including repayments, fines or penalties being imposed upon the Corporation, or could lead to suspension or debarment from future government contracting by the Corporation. The Corporation is also a party to or has its property subject to various other litigation and proceedings, including matters arising under provisions relating to the protection of the environment (collectively, proceedings).

On March 1, 1996, a NASA Inspector General's Office subpoena was served on Lockheed Martin Federal Systems-Owego (Federal Systems) seeking documents apparently relating to allegations of potential charging issues on a NASA subcontract pertaining to the provision of computer support on a Space Station contract.

Reference is made to prior disclosure of a subpoena served upon the Corporation by the Department of Defense Inspector General's Office (DoD IG) on May 4, 1995, seeking documents related to the Advanced Concept Center and the Information Systems and Technologies (IS&T) business which are part of Lockheed Martin Management & Data Systems. On April 16, 1996, the Department of Justice declined to intervene in a qui tam Complaint filed in the United States District Court for the Eastern District of Pennsylvania which was unsealed on that date. The Complaint generally alleges that the Corporation improperly charged costs at IS&T to indirect cost pools which were then allocated to various government contracts. The Corporation has filed an Answer denying the allegations and the matter is proceeding.

On May 21, 1996, a DoD IG subpoena was served on Sanders, one of the Corporation's operating companies, seeking documents related to pricing concerns on a U.S. Navy contract for the production of sonar data computers and sonobuoy monitor controls.

On June 25, 1996, Lockheed Martin Engineering & Science Services was served with a grand jury subpoena issued by the United States District Court for the Southern District of Texas seeking documents related to two former employees of a predecessor company, Lockheed Engineering & Sciences Company (LESC), and apparently pertaining to an investigation of cost accounting issues in connection with NASA service and support contracts. On August 13, 1996, the Corporation was advised that the U.S. Department of Justice is investigating the matter and the Corporation expects this investigation to continue.

Reference is made to prior disclosure of a subpoena served upon the Corporation by the DoD IG seeking documents relating to the price proposal submitted in connection with a LANTIRN program contract awarded in 1994. On July 16, 1996, two qui tam Complaints against the Corporation were unsealed in the United States District Court for the Middle District of Florida at Orlando. The Complaints allege various cost accounting issues on LANTIRN program contracts and seek damages in the amount of $140 million. The Corporation is preparing to respond to the Complaints. The government has not yet made a decision as to whether to intervene in the lawsuit and its investigation is continuing.

Reference is made to prior disclosure of a federal grand jury subpoena served upon the Corporation on January 23, 1996, seeking documents related to the manufacturing and testing of two circuit card assemblies used in the production of the Hellfire I missile for the U.S. Army. On July 24, 1996, a second grand jury subpoena was served on the Corporation requesting documents related to the same subject matter and the government's investigation of this matter is continuing.

The Corporation is involved in various other legal and environmental proceedings arising in the ordinary course of its business, but in the opinion of management and counsel the probability is remote that the outcome of any such litigation or proceedings, whether specifically described above or referred to generally in this paragraph, will have a material adverse effect on the results of the Corporation's operations or its financial position.

## Item 4 - Submission of Matters to a Vote of Security Holders

The following information provided herein was previously disclosed in the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, which was filed on May 15, 1996.

At the Annual Meeting of Stockholders on April 25, 1996, the stockholders of Lockheed Martin Corporation:

- Elected the following individuals to the Board of Directors for one-year terms expiring in 1997:

| | Votes Cast For | Votes Withheld |
|---|---|---|
| Norman R. Augustine | 170,862,168 | 2,340,617 |
| Marcus C. Bennett | 170,986,881 | 2,215,904 |
| Lynne V. Cheney | 171,021,762 | 2,181,023 |
| Vance D. Coffman | 170,982,572 | 2,220,213 |
| Houston I. Flournoy | 171,088,256 | 2,114,529 |
| James F. Gibbons | 171,162,115 | 2,040,670 |
| Edward E. Hood, Jr. | 171,105,536 | 2,097,249 |
| Caleb B. Hurtt | 170,980,976 | 2,221,809 |
| Gwendolyn S. King | 171,025,555 | 2,177,230 |
| Vincent N. Marafino | 170,873,889 | 2,328,896 |
| Eugene F. Murphy | 169,818,144 | 3,384,641 |
| Allen E. Murray | 171,083,097 | 2,119,688 |
| Frank Savage | 171,144,204 | 2,058,581 |
| Daniel M. Tellep | 170,904,357 | 2,298,428 |
| Carlisle A. H. Trost | 171,075,601 | 2,127,184 |
| James R. Ukropina | 171,162,820 | 2,039,965 |
| Douglas C. Yearley | 171,156,724 | 2,046,061 |

- Ratified the appointment of Ernst & Young LLP, independent auditors, to audit the consolidated financial statements of the Corporation for fiscal year 1996. There were 171,656,084 votes for the appointment, 1,160,754 votes against the appointment and 909,212 abstentions.

- Ratified management's proposal for the adoption of the Lockheed Martin Deferred Management Incentive Compensation Plan. There were 163,690,616 votes for the proposal, 7,941,803 votes against the proposal and 2,093,631 abstentions.

- Rejected a stockholder proposal which recommended that the Corporation endorse the Coalition for Environmentally Responsible Economies' principles for Corporate environmental accountability. There were 13,659,963 votes for the proposal, 136,553,561 votes against the proposal, 14,549,267 abstentions and 8,963,259 broker non-votes.

All resolutions, comments and recommendations concerning the proposals were set forth in the Corporation's definitive Proxy Statement dated March 18, 1996.

Item 6 - Exhibits and Reports on Form 8-K

(a) Exhibits

1. Exhibit 11. Lockheed Martin Corporation Computation of Earnings per Common Share for the three months and six months ended June 30, 1996 and 1995.

2. Exhibit 12. Lockheed Martin Corporation Computation of Ratio of Earnings to Fixed Charges for the six months ended June 30, 1996.

3. Exhibit 27. Financial Data Schedule for the six months ended June 30, 1996.

(b) Reports on Form 8-K filed in the second quarter of 1996

1. Current report on Form 8-K filed on April 5, 1996

Item 5. - Other Events

The registrant filed a copy of Lockheed Martin Corporation Corporate Policy Statement No. CPS-704, which pertains to consultants to Lockheed Martin Corporation.

2. Current report on Form 8-K filed on May 2, 1996

Item 2. - Acquisition or Disposition of Assets

The registrant filed information regarding consummation of the transactions contemplated by the definitive Agreement and Plan of Merger dated January 7, 1996 among the registrant, Loral Corporation and LAC Acquisition Corporation.

Item 5. - Other Events

The registrant filed information concerning the businesses of Lockheed Martin Tactical Systems, Inc., a wholly-owned subsidiary of the registrant which consists of the businesses of Loral Corporation which were acquired by the registrant.

Item 7. - Financial Statements and Exhibits

- - -Audited Consolidated Financial Statements of Loral Corporation and Subsidiaries
- - -Retained Business (Tactical Systems) 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.

- - -Unaudited Consolidated Financial Statements of Loral Corporation and Subsidiaries - Retained Business (Tactical Systems) 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.

- - -Unaudited Pro Forma Combined Condensed Financial Statements as of December 31, 1995 and for the fiscal year then ended, and related Notes to Unaudited Pro Forma Combined Condensed Financial Statements.

3. Current report on Form 8-K/A filed on May 8, 1996

The Form 8-K filed on May 2, 1996 was amended to add unaudited selected quarterly financial data of Loral Corporation and Subsidiaries - Retained Business (Tactical Systems) and to incorporate exhibits previously filed by Loral Corporation.

4. Current report on Form 8-K filed May 20, 1996

Item 5 - Other Events

The registrant filed information in connection with the offer and sale by the Corporation of $3.5 billion of long-term debt securities issued by the registrant under an existing Registration Statement on Form S-3 covering up to $5 billion in debt securities of the registrant. The due and punctual payment of the principal and interest on such securities is fully and unconditionally guaranteed by Tactical Systems.

Item 7 - Financial Statements and Exhibits

- Underwriting Agreement dated May 16, 1996.
- Pricing Agreement dated May 16, 1996.
- Indenture dated as of May 15, 1996.
- Form of 6.55% Note due 1999, Form of 6.85% Note due 2001, Form of 7.25% Note due 2006, Form of 7.65% Debenture due 2016, Form of 7.75% Debenture due 2026 and Form of 7.20% Debenture due 2036.
- Opinion of Miles & Stockbridge, a Professional Corporation, and Opinion of William J. LaSalle.
- Computation of Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends and Pro Forma Ratios of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.

5. Current Report on Form 8-K filed on May 28, 1996

Item 5. - Other Events

The registrant filed a copy of Lockheed Martin Corporation Corporate Policy Statement No. CPS-730, which pertains to Compliance with the Foreign Corrupt Practices Act.

6. Current Report on Form 8-K filed on June 18, 1996

Item 5. - Other Events

The registrant filed information concerning the business of Lockheed Martin Tactical Systems, Inc., a wholly-owned subsidiary of the registrant which consists of the businesses of Loral Corporation which were acquired by the registrant.

Item 7. - Financial Statements and Exhibits

Audited Consolidated Financial Statements of Loral Corporation and Subsidiaries - - - Retained Business (Tactical Systems) as of March 31, 1996 and 1995, and for each of the three years then ended.

7. Current Report on Form 8-K filed on June 25, 1996

Item 5. - Other Events

The registrant filed information in connection with the offer and sale by the Corporation of $1.5 billion of long-term debt securities issued by the registrant under an existing Registration Statement on Form S-3 covering up to $5 billion in debt securities of the registrant. The due and punctual payment of the principal and interest on such securities is fully and unconditionally guaranteed by Tactical Systems.

Item 7. - Financial Statements and Exhibits

- Underwriting Agreement dated June 21, 1996.
- Pricing Agreement dated June 21, 1996.
- Form of 6.625% Note due 1998, Form of 7.45% Note due 2004 and Form 7.70% Note due 2008.
- Opinion of Miles & Stockbridge, a Professional Corporation, and Opinion of William J. LaSalle.

## 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 thereunto duly authorized.

LOCKHEED MARTIN CORPORATION
(Registrant)

Date: August 12, 1996

by: /s/Robert E. Rulon
Robert E. Rulon
Vice President and Controller
(Chief Accounting Officer)

# LOCKHEED MARTIN CORPORATION
## COMPUTATION OF EARNINGS PER COMMON SHARE

| | Three Months Ended June 30, 1996 | Three Months Ended June 30, 1995 |
|---|---|---|
| | (In millions, except per share data) | |
| **ASSUMING NO DILUTION:** | | |
| Average number of common shares outstanding | 190.2 | 189.3 |
| Net earnings (loss) | $ 299 | $ (53) |
| Less: Preferred stock dividends | (15) | (15) |
| Net earnings (loss) applicable to common stock | $ 284 | $ (68) |
| Earnings (loss) per common share | $ 1.50 | $ (.36) |
| **ASSUMING FULL DILUTION:** | | |
| Average number of common shares outstanding | 190.2 | 189.3 |
| Dilutive stock options-based on the treasury stock method using the June 30 market prices, if higher than average market price | 4.7 | 4.2 |
| Assumed conversion of the Convertible Series A Preferred Stock | 28.9 | 28.9 |
| | 223.8 | 222.4 |
| Net earnings (loss) | $ 299 | $ (53) |
| Earnings (loss) per common share | $ 1.33 | $ (.24) * |

* The assumed conversion of the Corporation's Series A preferred stock for purposes of calculating earnings per share on a fully diluted basis had an anti-dilutive effect for both the three months and six months ended June 30, 1995.

Exhibit 11
(Continued)

LOCKHEED MARTIN CORPORATION
COMPUTATION OF EARNINGS PER COMMON SHARE

| | Six Months Ended June 30, 1996 | Six Months Ended June 30, 1995 |
|---|---|---|
| | (In millions, except per share data) | |
| ASSUMING NO DILUTION: | | |
| Average number of common shares outstanding | 189.7 | 188.9 |
| Net earnings | $ 571 | $ 84 |
| Less: Preferred stock dividends | (30) | (30) |
| Net earnings applicable to common stock | $ 541 | $ 54 |
| Earnings per common share | $ 2.85 | $ .28 |
| ASSUMING FULL DILUTION: | | |
| Average number of common shares outstanding | 189.7 | 188.9 |
| Dilutive stock options-based on the treasury stock method using the June 30 market prices, if higher than average market price | 4.9 | 4.4 |
| Assumed conversion of the Convertible Series A Preferred Stock | 28.9 | 28.9 |
| | 223.5 | 222.2 |
| Net earnings | $ 571 | $ 84 |
| Earnings per common share | $ 2.55 | $ .38 * |

* The assumed conversion of the Corporation's Series A preferred stock for purposes of calculating earnings per share on a fully diluted basis had an anti-dilutive effect for both the three months and six months ended June 30, 1995.

LOCKHEED MARTIN CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
FOR THE SIX MONTHS ENDED JUNE 30, 1996
(IN MILLIONS, EXCEPT RATIO)

| | |
|---|---|
| EARNINGS: | |
| Earnings from continuing operations before income taxes | $ 936 |
| Interest expense | 260 |
| Amortization of debt premium and discount, net | (1) |
| Portion of rents representative of an interest factor | 36 |
| Adjusted earnings from continuing operations before income taxes and fixed charges | $1,231 |
| FIXED CHARGES: | |
| Interest expense | $ 260 |
| Amortization of debt premium and discount, net | (1) |
| Portion of rents representative of an interest factor | 36 |
| Capitalized interest | 1 |
| Total fixed charges | $ 296 |
| RATIO OF EARNINGS TO FIXED CHARGES | 4.2 |

5

The schedule contains summary financial information extracted from the consolidated balance sheet and consolidated statement of earnings and is qualified in its entirety by reference to such financial statements.

1,000,000

6-MOS
DEC-30-1996
JAN-01-1996
JUN-30-1996
390
0
5,428
0
3,057
10,238
9,842
5,531
30,328
8,319
11,086
0
1,000
199
5,713
30,328
12,185
12,185
11,020
11,020
31
0
260
936
365
571
0
0
0
571
2.85
2.55