

APPENDIX C

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Loral Space & Communications Ltd.:

We have audited the accompanying balance sheet of Loral Space & Communications Ltd. (a Bermuda company) as of January 12, 1996. This balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

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

In our opinion, such balance sheet presents fairly, in all material respects, the financial position of Loral Space & Communications Ltd. as of January 12, 1996, in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

New York, New York
March 11, 1996

LORAL SPACE & COMMUNICATIONS LTD.

BALANCE SHEET

January 12, 1996

(In thousands, except share amounts)

ASSETS

Cash	\$12
Total assets	<u>\$12</u>

SHAREHOLDER'S EQUITY

Commitments and contingencies (Note 3)

Shareholder's equity (Note 2):

Series A convertible preferred stock, \$.01 par value; 150,000,000 shares authorized and unissued ..	\$—
Series B preferred Stock, \$.01 par value; 750,000 shares authorized and unissued	—
Common stock, \$.01 par value; 750,000,000 shares authorized, 12,000 shares issued and outstanding	—
Paid-in capital	12
Retained earnings	—
Total shareholder's equity	<u>\$12</u>

See notes to balance sheet.

LORAL SPACE & COMMUNICATIONS LTD.
NOTES TO BALANCE SHEET

1. Formation of Loral Space & Communications

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 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 Restructuring, Financing and Distribution Agreement (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, L.P. ("Globalstar"), Globalstar Telecommunications Limited ("GTL"), Space Systems/Loral, Inc. ("SS/L") 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 on or before the closing of the Merger, 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. The contribution from Lockheed Martin is subject to reduction for capital contributions made by Loral to its space and communications businesses. On March 6, 1996, Loral purchased \$100,000,000 principal amount of GTL's 6½% Convertible Preferred Equivalent Obligations for \$97,000,000 in cash.

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.

On January 12, 1996 Loral SpaceCom was incorporated as an exempted company under the Companies Act 1981 of Bermuda. As of January 12, 1996, the only transaction of Loral SpaceCom was the sale of 12,000 shares of common stock to Loral.

2. Shareholder's Equity

Loral SpaceCom has authorized 150,000,000 shares of Series A Convertible Preferred Stock and 750,000 shares of Series B Preferred Stock. Significant terms of the Series A include voting rights restricted to only selected matters such as merger, liquidation or sale of the company; a liquidation preference of \$.01 per share prior to pro rata participation with the Common Stock; and the ability to convert to Common Stock upon the receipt of certain antitrust clearance or upon sales to an unaffiliated third party. The Series B Preferred Stock will, if issued, be junior to any other series of Preferred Stock which may be authorized and issued.

Loral SpaceCom has reserved 12,000,000 shares of Common Stock for future grants of options to purchase shares of stock at fair market value as of the grant date.

Loral SpaceCom intends to adopt a shareholders rights plan prior to the distribution.

3. Credit Guarantee and Other Commitments

Under the Merger Agreement, Loral SpaceCom will assume certain commitments and contingencies associated with the Loral Corporation — Space & Communications Operations, as described below.

On December 15, 1995, Globalstar entered into a \$250,000,000 credit agreement (the "Credit Agreement") with a group of banks, which was guaranteed by Loral. In exchange for the guarantee, Globalstar and GTL entered into an agreement to issue warrants to Loral to purchase an effective 8% interest in Globalstar on a fully diluted basis. Subject to the approval of GTL's shareholders, warrants to purchase 4,185,318 shares of GTL common stock at \$26.50 per share will be issued to Loral. Proceeds received by GTL for warrants exercised will in turn be used to purchase Globalstar partnership interests under a one-for-one exchange arrangement. Upon such shareholder approval, GTL will be issued warrants to purchase an additional 1,131,168 general partnership interests in Globalstar (representing an approximate 2% equity interest in Globalstar). If GTL shareholder approval is not obtained, Globalstar will issue to Loral warrants to purchase 4,086,957 partnership interests and no Globalstar warrants will be issued to GTL. The warrants are subject to a vesting schedule, with 50% of the warrants vesting on the date that loans are first made by the banks pursuant to the Credit Agreement (the "Funding Date"), an additional 25% vesting on the first anniversary of the Funding Date and the remaining 25% vesting on the second anniversary of the Funding Date. Notwithstanding the foregoing, if the Globalstar Credit Agreement shall not be in effect on any vesting date, the warrants which would have otherwise vested on such date will be deemed to be cancelled. The warrants may not be exercised until six months after Globalstar commences initial operations and may not be transferred to third parties until such exercise date. Globalstar has also agreed to pay Loral a fee equal to 1.5% per annum of the average amount outstanding guaranteed 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.

Under the terms of the Merger Agreement, Lockheed Martin has agreed to assume the obligations of Loral as a guarantor under the Credit Agreement. Loral has agreed to assume approximately \$88,600,000 of this guarantee obligation, and SS/L and certain other Globalstar strategic partners have agreed to assume approximately \$11,700,000 and \$49,700,000 thereof, respectively. In return for providing the guarantee, the guarantors will share proportionately in the warrants described above. Globalstar is seeking an amendment to the Credit Agreement to permit the transactions contemplated in the Merger Agreement and Distribution Agreement and believes that it will receive satisfactory consents from the bank syndicate prior to the Distribution. However, failure to obtain such consents would result in an event of default at the time these transactions occur and if the Credit Agreement is cancelled, all warrants issued and issuable will be cancelled.

Under a shareholders agreement among SS/L's equity investors, a change of control of Loral within the meaning of such agreement would provide each of SS/L's equity investors other than Loral (the "Alliance Partners") with the right to (i) put their equity interests back to SS/L at fair market value, or (ii) purchase a pro rata share of Loral's equity interest in SS/L for fair market value (subject to receiving certain authorizations including U.S. government approval). While it is not certain that the change of control provisions are applicable, Loral and SS/L are seeking an amendment to the shareholders agreement to acknowledge the proposed transfer of Loral's interest in SS/L to Loral SpaceCom as contemplated by the Distribution Agreement and a waiver of such put and purchase option rights. In the event that any of SS/L's Alliance Partners put their interests back to SS/L, Loral SpaceCom may be required to acquire such interests.

In addition, effective June 1, 1992, Loral issued to certain partnerships affiliated with Lehman Brothers Inc. (the "Lehman Partnerships") Series S Preferred Stock of a Loral subsidiary. 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 the Loral Subsidiary other than with respect to the SS/L operations. If the Lehman Partnerships continue to hold LAH Series S Preferred Stock after January 1, 1998, or after a change in control of Loral, they will have the right to request that Loral purchase their Series S Preferred Stock at fair market value. In such event, Loral may elect to purchase such Series S Preferred Stock at fair market value, or if Loral elects not to purchase the stock, the Lehman Partnerships may require the combined interests of Loral and the Lehman Partnerships in SS/L to be sold to a third party.

LORAL SPACE & COMMUNICATIONS LTD.
UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following unaudited pro forma financial information gives effect to the contribution of certain of the space and communications assets and operations and certain other interests of Loral Corporation to Loral Space & Communications Ltd. ("Loral SpaceCom") and a net cash contribution of \$615,400,000 (the originally announced \$712,400,000 less \$97,000,000 paid for the purchase of \$100,000,000 principal amount of GTL 6½% Convertible Preferred Equivalent Obligations), subject to reduction, expected to occur on or about April 1, 1996. The unaudited pro forma balance sheet assumes the spin-off occurred as of December 31, 1995 and the unaudited pro forma statements of operations assume the spin-off occurred as of April 1, 1994. The unaudited pro forma financial information is based on historical financial statements of Loral Corporation — Space & Communications Operations.

The pro forma adjustments include the transfer of additional assets of Loral Corporation and the estimated additional corporate office expenses expected to be incurred on a stand-alone basis for Loral SpaceCom's anticipated activities. The unaudited pro forma financial information should be read in conjunction with the financial statements and notes included in this Information Statement. The pro forma data has been prepared in accordance with SEC Regulations and may not be indicative of the results that actually would have occurred if the spin-off had been in effect on the dates indicated or results that may be obtained in the future.

UNAUDITED PRO FORMA BALANCE SHEET
December 31, 1995
(In thousands)

	Loral Space & Communications Ltd.	Loral Corporation — Space & Communications Operations	Pro Forma Adjustments (Note 2)	Loral Space & Communications Ltd. Pro Forma
ASSETS				
Cash and cash equivalents	\$ 12	\$ —	\$615,400 (a)	\$ 615,412
Property, plant and equipment, net			24,955 (b)	24,955
Investment in affiliates		237,268	97,000 (a)	334,268
Other assets		9,800	12,795 (b)	22,595
Deferred income taxes		6,559	(6,559) (d)	
	\$ 12	\$253,627	\$743,591	\$ 997,230
LIABILITIES AND SHAREHOLDERS'				
EQUITY				
Accrued expenses	\$ —	\$ —	\$ 12,000 (a)	\$ 12,000
Postretirement benefits			1,000 (b)	1,000
Shareholders' equity:				
Preferred stock (46,050 shares outstanding pro forma)			461 (a)	461
Common stock (12 shares outstanding, 184,200 shares outstanding pro forma)			1,842 (a)	1,842
Paid-in capital	12		981,915 (a)	981,927
Invested equity		253,627	(253,627) (a)	
Retained earnings				
Total shareholders' equity	12	253,627	730,591	984,230
	\$ 12	\$253,627	\$743,591	\$ 997,230

See notes to unaudited pro forma financial information.

LORAL SPACE & COMMUNICATIONS LTD.

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

For the year ended March 31, 1995

(In thousands, except per share data)

	<u>Loral Corporation — Space & Communications Operations</u>	<u>Pro Forma Adjustments (Note 2)</u>	<u>Loral Space & Communications Ltd. Pro Forma</u>
Management fee from affiliate	\$ 3,169		\$ 3,169
Allocated costs and expenses, net	(3,202)	\$(14,900) (b)	(18,102)
Gain on conversion of affiliate's debentures	11,514		11,514
Allocated interest expense	<u>(9,456)</u>	<u>9,456</u> (c)	<u> </u>
Income (loss) before income taxes and equity in net loss of affiliates	2,025	(5,444)	(3,419)
Provision for income taxes	<u>910</u>	<u>(910)</u> (d)	<u> </u>
Income (loss) before equity in net loss of affiliates	1,115	(4,534)	(3,419)
Equity in net loss of affiliates	<u>(8,988)</u>	<u>(7,083)</u> (d)	<u>(16,071)</u>
Net loss	<u>\$ (7,873)</u>	<u>\$ (11,617)</u>	<u>\$ (19,490)</u>
Loss per common share (Note 3)			<u>\$ (0.11)</u>
Weighted average common shares outstanding		<u>184,200</u>	<u>184,200</u>

See notes to unaudited pro forma financial information.

LORAL SPACE & COMMUNICATIONS LTD.

UNAUDITED PRO FORMA STATEMENT OF OPERATIONS

For the nine months ended December 31, 1995

(In thousands, except per share data)

	<u>Loral Corporation — Space & Communications Operations</u>	<u>Pro Forma Adjustments (Note 2)</u>	<u>Loral Space & Communications Ltd. Pro Forma</u>
Management fee from affiliate.....	\$ 3,841		\$ 3,841
Allocated costs and expenses, net	(2,266)	\$(13,500) (b)	(15,766)
Allocated interest expense	<u>(7,563)</u>	<u>7,563</u> (c)	<u> </u>
Loss before income taxes and equity in net loss of affiliates ...	(5,988)	(5,937)	(11,925)
Benefit for income taxes	<u>(2,093)</u>	<u>2,093</u> (d)	<u> </u>
Loss before equity in net loss of affiliates.....	(3,895)	(8,030)	(11,925)
Equity in net loss of affiliates.....	<u>(11,360)</u>	<u>(8,253)</u> (d)	<u>(19,613)</u>
Net loss	<u><u>\$(15,255)</u></u>	<u><u>\$(16,283)</u></u>	<u><u>\$(31,538)</u></u>
Loss per common share (Note 3).....			<u><u>\$ (.17)</u></u>
Weighted average common shares outstanding		<u>184,200</u>	<u>184,200</u>

See notes to unaudited pro forma financial information.

LORAL SPACE & COMMUNICATIONS LTD.

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The following facts and assumptions were used in determining the pro forma effect of 1) the contribution of certain of the space and communications and certain other interests of Loral Corporation to Loral SpaceCom, 2) the contribution of \$712,400,000 by Lockheed Martin Corporation, subject to reduction, ("Lockheed Martin"), and 3) the transfer of certain other assets of Loral Corporation to Loral SpaceCom.

On January 7, 1996, 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 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 Restructuring, Financing and Distribution Agreement (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, GTL, SS/L 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 on or before the closing of the Merger, 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. The contribution from Lockheed Martin is subject to reduction for capital contributions made by Loral to its space and communications businesses. On March 6, 1996, Loral purchased \$100,000,000 principal amount of GTL's 6½% Convertible Preferred Equivalent Obligations for \$97,000,000 in cash.

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.

On January 12, 1996 Loral SpaceCom was incorporated as an exempted company under the Companies Act 1981 of Bermuda. As of January 12, 1996, the only transaction of the Company was the sale of 12,000 shares of common stock to Loral Corporation.

2. The following pro forma adjustments were made:

(a) The unaudited pro forma condensed balance sheet reflects a net increase in cash of \$615,400,000, the purchase of \$100,000,000 of Globalstar Telecommunication Limited 6½% Convertible Preferred Equivalent Obligations for \$97,000,000, the issuance of 46,050,000 shares (\$.01 par value) of preferred stock, the issuance of 184,200,000 shares (\$.01 par value) of common stock and an increase in paid-in capital of \$698,097,000, net of an accrual for estimated costs of the transactions of \$12,000,000. Paid in capital has been adjusted by an additional \$283,818,000 for the elimination of the invested equity of the Loral Corporation — Space & Communications Operations of \$253,627,000 and related adjustments to the items discussed in (b) and (d) below.

(b) The unaudited pro forma condensed balance sheet includes adjustments to property, plant and equipment to reflect the transfer of certain fixed assets to the Loral SpaceCom operations. In addition, adjustments were made to other assets to record the cash surrender value of split-dollar life insurance policies of \$12,795,000 related to Loral SpaceCom's executive officers, and to postretirement benefits for \$1,000,000 for an estimated allocation of accrued pension and postretirement health care and life insurance benefits attributable to Loral SpaceCom's assumed employees. The unaudited pro forma

LORAL SPACE & COMMUNICATIONS LTD.

NOTES TO UNAUDITED PRO FORMA FINANCIAL INFORMATION — (CONTINUED)

condensed statements of operations include adjustments to reflect estimated additional personnel costs, including pension and other fringe benefits, allocable rent, utility and maintenance costs and other general and administrative expenses of \$13,500,000 and \$14,900,000 for the nine months ended December, 1995 and the year ended March 31, 1995, respectively. Such additional costs, for current and anticipated business activities, will be incurred as a result of Loral SpaceCom operating on a stand-alone basis without the benefit of economies of scale as part of Loral Corporation.

(c) The pro forma condensed statement of operations reflects the elimination of allocated interest expense because Loral SpaceCom will have no debt outstanding after the spin-off. Anticipated interest income on the \$615,400,000 pro forma cash balance has not been reflected in the pro forma statements of operations pursuant to SEC Regulations.

(d) The unaudited pro forma condensed balance sheet reflects the elimination of deferred tax assets of the Loral Corporation — Space & Communications Operations and the unaudited pro forma condensed statements of operations reflect the elimination of historical income tax benefits recorded, including income tax benefits attributable to equity in net loss of affiliates, since Loral SpaceCom has been organized as an offshore corporation and realization is unlikely.

3. Pro forma earnings per share is computed based upon the pro forma outstanding common shares of 184,200,000, representing the expected shares outstanding as of the Spin-Off Record Date. The 46,050,000 preferred shares are common stock equivalents, but have not been included in the computation of pro forma earnings per share since the impact would be antidilutive.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of
Directors of Loral Corporation:

We have audited the accompanying combined balance sheets of the Space & Communications Operations of Loral Corporation as of March 31, 1995 and 1994, and the related combined statements of operations and invested equity and of cash flows for each of the three years in the period ended March 31, 1995. These financial statements are the responsibility of Loral Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the Space & Communications Operations of Loral Corporation at March 31, 1995 and 1994, and the 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 Note 2 to the combined financial statements, in 1993 the Company and its equity investee, Space Systems/Loral, Inc., changed their method of accounting for postretirement benefits other than pensions.

DELOITTE & TOUCHE LLP

New York, New York
January 12, 1996
(March 6, 1996 as to the third
paragraph of Note 1 and as to Note 8)

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
COMBINED BALANCE SHEETS
(In thousands)

	March 31,	
	1995	1994
ASSETS		
Investment in affiliates	\$250,977	\$163,479
Deferred income taxes	842	
Total assets	\$251,819	\$163,479
LIABILITIES AND INVESTED EQUITY		
Deferred income taxes	\$ —	\$ 4,281
Commitments and contingencies (Notes 7 and 8)		
Invested equity	251,819	159,198
Total liabilities and invested equity	\$251,819	\$163,479

See notes to combined financial statements.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
COMBINED STATEMENTS OF OPERATIONS AND INVESTED EQUITY
(In thousands)

	<u>For the years ended March 31,</u>		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Management fee from affiliate	\$ 3,169	\$ 2,981	\$ 2,576
Allocated costs and expenses, net	(3,202)	(2,583)	(1,675)
Gain on exchange of affiliate's debentures	11,514		
Allocated interest expense	<u>(9,456)</u>	<u>(8,253)</u>	<u>(10,550)</u>
Income before income taxes and equity in net income (loss)			
of affiliates	2,025	(7,855)	(9,649)
Provision (benefit) for income taxes	<u>910</u>	<u>(2,987)</u>	<u>(3,744)</u>
Income (loss) before equity in net income (loss) of affiliates	1,115	(4,868)	(5,905)
Equity in net income (loss) of affiliates	<u>(8,988)</u>	<u>1,174</u>	<u>663</u>
Loss before cumulative effect of change in accounting	(7,873)	(3,694)	(5,242)
Cumulative effect of change in accounting			<u>(6,759)</u>
Net loss	(7,873)	(3,694)	(12,001)
Invested equity — beginning of year	159,198	137,017	145,810
Advances from Loral Corporation	<u>100,494</u>	<u>25,875</u>	<u>3,208</u>
Invested equity — end of year	<u>\$251,819</u>	<u>\$159,198</u>	<u>\$137,017</u>

See notes to combined financial statements.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
COMBINED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended March 31,		
	1995	1994	1993
Cash flows from operating activities:			
Net loss	\$ (7,873)	\$ (3,694)	\$(12,001)
Cumulative effect of change in accounting			6,759
Equity in net loss (income) of affiliates	8,988	(1,174)	(663)
Tax benefit of Globalstar partnership losses	7,083		
Deferred income taxes	(5,123)	4,281	
Gain on exchange of affiliate's debentures	(11,514)		
Net cash used in operating activities	<u>(8,439)</u>	<u>(587)</u>	<u>(5,905)</u>
Investing activities:			
Cash received on exchange of affiliate's debentures	11,514		
Investment in affiliates	(103,569)	(25,288)	(9,500)
Proceeds from sale of stock of affiliate			12,197
Net cash (used in) provided by investing activities	<u>(92,055)</u>	<u>(25,288)</u>	<u>2,697</u>
Financing activities:			
Advances from Loral Corporation	100,494	25,875	3,208
Net cash provided by financing activities	<u>100,494</u>	<u>25,875</u>	<u>3,208</u>
Net change in cash	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to combined financial statements.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS

1. Formation of Loral Space & Communications

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 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 Restructuring, Financing and Distribution Agreement (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, L.P. ("Globalstar"), Globalstar Telecommunications Limited ("GTL"), Space Systems/Loral, Inc. ("SS/L") 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 on or before the closing of the Merger, 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. The contribution from Lockheed Martin is subject to reduction for capital contributions by Loral to its space and communications businesses.

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.

On March 6, 1996, Loral purchased \$100,000,000 principal amount of GTL's 6½% Convertible Preferred Equivalent Obligations for \$97,000,000 in cash. (See Note 8 — Subsequent Events)

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying combined financial statements reflect that portion of the space and communications assets and operations (the "Space & Communications Operations") included in Loral's historical financial statements that will be spun-off to Loral SpaceCom.

Certain other non-operating assets of Loral will also be spun-off to Loral SpaceCom as of the closing date of the merger. However, those assets, consisting of certain fixed assets and other miscellaneous assets, have not been included in the accompanying financial statements since those assets have been principally used in the Loral operations acquired by Lockheed Martin.

Investment in Affiliates

Investment in affiliates are accounted for using the equity method. Income and losses of the affiliates are recorded based on Loral's beneficial ownership interests. Intercompany profits arising from transactions between affiliates are eliminated to the extent of the Company's beneficial interests. Equity in losses of affiliates is not recognized after the carrying value has been reduced to zero, unless guarantees or other obligations exist.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

2. Summary of Significant Accounting Policies (continued)

Allocation of Certain Expenses

The Space & Communications Operations as presented herein, include allocations and estimates of certain expenses of Loral based upon estimates of actual services performed by Loral. The amount of corporate office expenses reflected in these financial statements have been estimated based primarily on the allocation methodology prescribed by government regulations pertaining to government contractors, which management of Loral believes to be a reasonable allocation method. However, the financial position and results of operations, as presented herein may not be the same as would have occurred had the Space & Communications Operations been an independent entity.

Interest Expense

Interest has been allocated to the Space & Communications Operations based upon Loral's historical weighted average debt cost applied to the average investment in affiliates for each period, which management of Loral believes to be a reasonable allocation method. Interest related to the investment in Globalstar prior to the commencement of operations has been capitalized.

Income Taxes

The Space & Communications Operations are included in the consolidated U.S. Federal income tax return and certain combined and separate state and local income tax returns of Loral. However, for purposes of these financial statements, the provision (benefit) for income taxes is computed as if the Space and Communications Operations were a separate taxpayer; accordingly, the provision (benefit) for income taxes is based upon reported income (loss) before income taxes. Current income tax liabilities (benefits) are considered to have been paid (received) by Loral and are recorded through the invested equity account with Loral. Deferred income taxes reflect the tax effect of temporary differences between the carrying amount of assets and liabilities for financial and income tax reporting and are measured by applying tax rates in effect at the end of each year.

Accounting Change

Effective April 1, 1992, Loral and its equity investee, SS/L, 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. SS/L elected to immediately recognize the accumulated postretirement obligation upon adoption of SFAS 106. The cumulative effect of change in accounting represents the proportionate share of this accounting change for SS/L. The impact of adopting SFAS 106 in the expenses allocated by Loral to the Space & Communications Operations was not significant.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

3. Investment in Affiliates

Investment in affiliates is summarized as follows (in thousands):

	March 31,	
	1995	1994
SS/L	\$140,007	\$138,191
Globalstar	110,970	25,288
K&F	24,290	—
Deferred K&F gain	(24,290)	—
	\$250,977	\$163,479

Equity in net income (loss) of affiliates consists of (in thousands):

	Years ended March 31,		
	1995	1994	1993
SS/L	\$ 1,816	\$1,174	\$663
Globalstar	(17,887)		
Tax benefit of Globalstar partnership losses	7,083		
	\$ (8,988)	\$1,174	\$663

Globalstar

In March 1994, Loral and seven other partners made capital commitments totaling \$275,000,000 to Globalstar, a limited partnership of which Loral is the managing general partner, which plans to design and operate a worldwide satellite-based telecommunications system (the "Globalstar System"). On January 31, 1995, the U.S. Federal Communications Commission issued a license to construct, launch and operate the Globalstar System. The Globalstar System, consisting of 48 low-earth-orbit satellites, will offer voice, data, paging and geolocation services to both handheld and fixed terminals. Loral as the managing general partner of Globalstar is entitled to receive a management fee, upon commencement of commercial operations, determined in accordance with the partnership agreement.

At March 31, 1994, Loral had an effective 42% equity interest in Globalstar and had a total capital commitment of \$107,000,000, of which \$25,288,000 had been funded. The remaining commitment was funded in two installments, in November 1994 and March 1995.

At March 31, 1995, Loral has a 32.3% interest in Globalstar. At March 31, 1995, Globalstar has received \$479,500,000 in equity from Loral and Globalstar's other partners including GTL, a public company that acts as a general partner of Globalstar. Loral has contributed \$126,816,000 to Globalstar, including \$32,316,000 for 1,674,400 shares of common stock of GTL and as a result, has an effective ownership of 15,188,400 partnership interests of the total 47,000,000 Globalstar partnership interests outstanding. At March 31, 1995, the market value of Loral's GTL shares was \$26,372,000. Loral's investment in Globalstar of \$110,970,000 includes \$2,041,000 of capitalized costs, principally interest, and is net of Loral's share of Globalstar's pre-tax losses of \$17,887,000.

Globalstar has awarded SS/L the prime contract to design, construct and launch the satellite constellation. SS/L has awarded and expects to award subcontracts to third parties, including other investors in Globalstar, for substantial portions of its obligations under the contract. Through SS/L, Loral has an additional 1.4% indirect interest in Globalstar.

As of December 31, 1995, the cost of the Globalstar System through 1998, the expected in-service date, is expected to be approximately \$1,800,000,000, excluding working capital, cash interest on anticipated borrowings, and operating expenses. Through December 31, 1995, Globalstar has obtained \$479,500,000 of

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS

NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

3. Investment in Affiliates (continued)

equity from its partners, commitments for approximately \$310,000,000 of vendor financing and a \$250,000,000 credit facility which was guaranteed by Loral (see Note 8 — Subsequent Events). In addition, Globalstar has received \$22,000,000 of advance payments associated with exclusive rights to certain Globalstar service territories. Globalstar intends to fund the remaining capital requirement principally through capital markets, vendor financing, prepaid service connection fees and sale of limited partnership interests.

SS/L

SS/L, a company owned by Loral and four international aerospace and communications companies (the "Alliance Partners"), designs and produces geosynchronous and low-earth orbit satellites and subsystems for communications, remote earth sensing and direct-to-home broadcast television. Loral Corporation, through its wholly owned subsidiaries Loral Aerospace Holdings, Inc. ("LAH") and Loral Aerospace Corp. ("Loral Aerospace"), owns 51% of the common stock of SS/L. Prior to June 1, 1992, LAH was partially owned by certain partnerships affiliated with Lehman Brothers Holdings Inc. (the "Lehman Partnerships"). Effective June 1, 1992, Loral acquired the minority equity interest in LAH held by the Lehman Partnerships through the issuance of shares of Loral Corporation 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. In connection with the issuance of SS/L common stock to a third party in November 1992, Loral Aerospace purchased additional shares of SS/L to maintain its 51% ownership for \$9,500,000 of cash and the cancellation of a \$50,000,000 subordinated promissory note from SS/L. To maintain their proportionate interest, the Lehman Partnerships purchased an additional 104.55 shares of LAH Series S Preferred Stock from LAH in December 1992 for \$12,197,500 in cash.

Due to the LAH Series S Preferred Stock held by the Lehman Partnerships, Loral has an effective 32.7% economic interest in SS/L. Further, LAH and Loral Aerospace have agreed not to cause SS/L to take certain actions without the concurrence of three, or in some cases all, of the SS/L directors appointed by the four other equity investors. Accordingly, Loral accounts for its investment in SS/L under the equity method.

K&F

In 1989, Loral sold certain of its divisions to K&F for cash of \$430,000,000 and a \$30,000,000 14.75% pay-in-kind Subordinated Debenture due 2004 (the "Debenture"). K&F was formed specifically to effect the purchase of these divisions through the issuance of approximately \$400,000,000 of debt, including the Debenture, and \$65,000,000 of equity. Because K&F was highly-leveraged, uncertainties existed at the time regarding the ultimate collectibility of the Debenture and, accordingly, Loral deferred any gain recognition from the sale relating to the Debenture, as well as any pay-in-kind interest earned on the Debenture. In September 1994, the Debenture was exchanged for \$11,514,000 in cash, net of expenses, and a 22.5% voting equity interest in K&F. The cash proceeds were recorded as a non-recurring gain representing the receipt of sale proceeds deferred in the 1989 transaction. The 22.5% voting equity interest was recorded at estimated fair value, determined by independent investment bankers engaged by the Loral Board of Directors. Based on the financial position of K&F at the time of the exchange, Loral has continued to record a deferred gain for the \$25,000,000 estimated fair value of the stock received. Loral is using the equity method of accounting for its investment in K&F and accordingly, both the investment in K&F and the related deferred gain have been adjusted by Loral's share of net loss and amortization, over a 35 year period, of goodwill inherent in the fair value recorded. However, no equity income will be recognized until K&F has positive net worth. The Chairman of Loral Corporation is a principal shareholder of K&F and after the exchange owns approximately 27% of K&F. In addition, certain executive officers of Loral own rights to purchase approximately 4% of

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

3. Investment in Affiliates (continued)

K&F's capital stock. Summarized financial information for K&F as of March 31, 1995 and for the year then ended is as follows: Current assets \$104,914,000; Noncurrent assets \$324,160,000; Current liabilities \$56,889,000; Long-term debt \$310,000,000; Postretirement benefits other than pensions \$77,717,000; Other noncurrent liabilities \$19,216,000; Sales \$238,756,000; Cost of sales \$164,697,000; and Net loss \$10,173,000.

4. Management Fees and Allocation of Corporate Expenses

Pursuant to stockholder and partnership agreements, Loral is responsible for managing the operations of SS/L and Globalstar. Such agreements indicate the amounts that can be charged to Globalstar and SS/L in return for such services. In the case of Globalstar, Loral is entitled to receive a management fee upon commencement of commercial operations. In the case of SS/L, Loral can charge a management fee based on a formula related to sales and an allocation of certain overhead costs. The Chairman of Loral and certain of its executive officers receive compensation from K&F for rendering advisory services to K&F.

The following summarizes the management fee and allocated costs and expenses, net reflected in the statement of operations (in thousands):

	Years ended March 31,		
	1995	1994	1993
Management fee from affiliate	\$3,169	\$2,981	\$2,576
Allocated costs and expenses	\$6,489	\$6,095	\$4,262
Allocated costs and expenses charged to affiliates	(3,287)	(3,512)	(2,587)
Allocated costs and expenses, net	\$3,202	\$2,583	\$1,675

5. Related Party Transactions

In addition to the transactions described in Note 4, Loral has a number of other transactions with its affiliates. Loral believes that the arrangements are as favorable to Loral as could be obtained from unaffiliated parties. The following describes the related-party transactions included in the financial statements of the affiliates.

Two of Loral'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.

LAH bills certain operational, executive, administrative, financial, legal and other services to SS/L and SS/L charges LAH certain overhead costs. Net costs billed to SS/L were \$8,518,000, \$5,934,000 and \$7,861,000 in 1995, 1994 and 1993, respectively. In addition, Loral Corporation sells products to SS/L; net sales to SS/L were \$26,528,000, \$15,769,000 and \$11,030,000 in 1995, 1994 and 1993, respectively. LAH and SS/L have a tax sharing agreement whereby certain tax liabilities and benefits are shared equitably.

Loral and K&F have agreements covering various real property occupancy arrangements and agreements under which Loral 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 Loral and K&F, are based upon the actual cost incurred in providing the services without a profit. These transactions between Loral and K&F were not significant.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

6. Income Taxes

The provision (benefit) for income taxes consists of the following (in thousands):

	Years ended March 31,		
	1995	1994	1993
Current:			
U.S. Federal	\$ 3,730	\$(6,490)	\$(3,281)
State and local	426	(778)	(463)
	4,156	(7,268)	(3,744)
Deferred, principally U.S. Federal	(3,246)	4,281	
Total provision (benefit) for income taxes	\$ 910	\$(2,987)	\$(3,744)

For the year ended March 31, 1995, the provision for income taxes excludes a current tax benefit of \$5,206,000 and a deferred tax benefit of \$1,877,000 related to the Globalstar partnership loss which is included in equity in loss of affiliates.

A reconciliation from the statutory U.S. Federal income tax rate to Loral SpaceCom's effective income tax rate follows (in thousands):

	Years ended March 31,		
	1995	1994	1993
Statutory U.S. Federal income tax rate	35.0%	(35.0)%	(34.0)%
State and local income taxes, net of Federal income tax	4.0	(4.2)	(4.8)
Undistributed income of affiliates	7.0	1.2	
Other, net	(1.1)		
Effective income tax rate	44.9%	(38.0)%	(38.8)%

The deferred tax liability on the accompanying balance sheet arises from the tax effect of the temporary differences between the carrying amount of investment in affiliates for financial and income tax reporting.

7. Commitments and Contingencies

Under a shareholders agreement among SS/L's equity investors (see Note 3), a change of control of Loral within the meaning of such agreement would provide each of SS/L's Alliance Partners with the right to (i) put their equity interests back to SS/L at fair market value, or (ii) purchase a pro rata share of Loral's equity interest in SS/L for fair market value (subject to receiving certain authorizations including U.S. government approval). While it is not certain that the change of control provisions are applicable, Loral and SS/L are seeking an amendment to the shareholders agreement to acknowledge the proposed transfer of Loral's interest in SS/L to Loral SpaceCom as contemplated by the Distribution Agreement and a waiver of such put and purchase option rights. In the event that any of SS/L's Alliance Partners put their interests back to SS/L, Loral SpaceCom will acquire such interests.

In addition, if the Lehman Partnerships continue to hold LAH Series S Preferred Stock (see Note 3) after January 1, 1998, or after a change in control of Loral, they will have the right to request that Loral purchase their Series S Preferred Stock at fair market value. In such event, Loral may elect to purchase such Series S Preferred Stock at fair market value, or if Loral elects not to purchase the stock, the Lehman Partnerships may require the combined interests of Loral and the Lehman Partnerships in SS/L to be sold to a third party.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

8. Subsequent Events

Credit Agreement

On December 15, 1995, Globalstar entered into a \$250,000,000 credit agreement (the "Credit Agreement") with a group of banks, which was guaranteed by Loral. In exchange for the guarantee, Globalstar and GTL entered into an agreement to issue warrants to Loral to purchase an effective 8% interest in Globalstar on a fully diluted basis. Subject to the approval of GTL's shareholders, warrants to purchase 4,185,318 shares of GTL common stock at \$26.50 per share will be issued to Loral. Proceeds received by GTL for warrants exercised will in turn be used to purchase Globalstar partnership interests under a one-for-one exchange arrangement. Upon such shareholder approval, GTL will be issued warrants to purchase an additional 1,131,168 general partnership interests in Globalstar (representing an approximate 2% equity interest in Globalstar). If GTL shareholder approval is not obtained, Globalstar will issue to Loral warrants to purchase 4,086,957 partnership interests and no Globalstar warrants will be issued to GTL. The warrants are subject to a vesting schedule, with 50% of the warrants vesting on the date that loans are first made by the banks pursuant to the Credit Agreement (the "Funding Date"), an additional 25% vesting on the first anniversary of the Funding Date and the remaining 25% vesting on the second anniversary of the Funding Date. Notwithstanding the foregoing, if the Globalstar Credit Agreement shall not be in effect on any vesting date, the warrants which would have otherwise vested on such date will be deemed to be cancelled. The warrants may not be exercised until six months after Globalstar commences initial operations and may not be transferred to third parties until such exercise date. Globalstar has also agreed to pay Loral a fee equal to 1.5% per annum of the average amount outstanding guaranteed 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.

Under the terms of the Merger Agreement Lockheed Martin has agreed to assume the obligations of Loral as a guarantor under the Credit Agreement. Loral has agreed to assume approximately \$88,600,000 of this guarantee obligation, and SS/L and certain other Globalstar strategic partners have agreed to assume approximately \$11,700,000 and \$49,700,000 thereof, respectively. In return for providing the guarantee, the guarantors will share proportionately in the warrants described above. Globalstar is seeking an amendment to the Credit Agreement to permit the transactions contemplated in the Merger Agreement and Distribution Agreement and believes that it will receive satisfactory consents from the bank syndicate prior to the Distribution. However, failure to obtain such consents would result in an event of default at the time these transactions occur and if the Credit Agreement is cancelled, all warrants issued and issuable will be cancelled.

Purchase of GTL Convertible Preferred Equivalent Obligations

On March 6, 1996, GTL issued Convertible Preferred Equivalent Obligations (the Securities) with a face value totaling \$300,000,000 in a private placement of which \$100,000,000 principal amount was purchased by Loral at a cost of \$97,000,000. The Securities are subordinated to existing and future debt obligations of GTL, are convertible into 4,615,385 shares of GTL Common Stock at a conversion price of \$65.00 per share, bear interest at 6½% per annum payable quarterly, are redeemable (at a premium which declines over time) by GTL beginning in 2000 (or beginning in 1997 if GTL's stock price exceeds certain defined price ranges), and, if still outstanding, must be redeemed by GTL on March 1, 2006. Interest and redemption payments may be made by GTL in cash or shares of stock (see below). In the event of a change in control of GTL (as defined in the Securities agreement), holders may elect to convert their Securities into shares of GTL Common Stock based on the then average market price of GTL's stock, subject to GTL's option to redeem such obligations. GTL has agreed to file a Registration Statement with the U.S. Securities and Exchange Commission covering the Securities within 120 days.

The net proceeds of \$290,000,000 from the issuance of the Securities were used by GTL to purchase 4,615,385 Preferred Partnership Interests in Globalstar. These Preferred Partnership Interests will convert to ordinary partnership interests on a one-for-one basis upon any conversion of the Securities, will pay a quarterly

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO COMBINED FINANCIAL STATEMENTS — (Continued)

8. Subsequent Events (continued)

preferred distribution to GTL of 6½% per annum, will be allocated losses of the partnership only after all adjusted capital accounts of the ordinary partnership interests have been reduced to zero, and are redeemable on terms comparable to the Securities. Globalstar may elect to make the quarterly preferred distribution to GTL in cash or general partnership interests. If such distribution is made in cash, GTL must make its interest payment on the Securities in cash. Globalstar may elect to defer payment of the preferred distribution; in such case, GTL may also elect to defer interest payment on the Securities, however, holders of the Securities are entitled to certain representation rights on the General Partners' Committee of Globalstar in the event six consecutive interest payments are deferred.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
CONDENSED COMBINED BALANCE SHEETS
(In thousands)

	<u>December 31,</u> 1995	<u>March 31,</u> 1995
	(Unaudited)	
ASSETS		
Investment in affiliates	\$237,268	\$250,977
Other asset	9,800	
Deferred income taxes	6,559	842
Total assets	<u>\$253,627</u>	<u>\$251,819</u>
INVESTED EQUITY		
Invested equity	<u>\$253,627</u>	<u>\$251,819</u>
Total invested equity	<u>\$253,627</u>	<u>\$251,819</u>

See notes to condensed combined financial statements.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
CONDENSED COMBINED STATEMENTS OF OPERATIONS AND INVESTED EQUITY
(In thousands)
(Unaudited)

	Nine months ended December 31,	
	<u>1995</u>	<u>1994</u>
Management fee from affiliate	\$ 3,841	\$ 2,255
Allocated costs and expenses, net	(2,266)	(2,486)
Gain on exchange of affiliate's debentures		11,514
Allocated interest expense	<u>(7,563)</u>	<u>(6,972)</u>
Income (loss) before income taxes and equity in net loss of affiliates	(5,988)	4,311
Provision (benefit) for income taxes	<u>(2,093)</u>	<u>1,755</u>
Income (loss) before equity in net loss of affiliates	(3,895)	2,556
Equity in net loss of affiliates	<u>(11,360)</u>	<u>(5,632)</u>
Net loss	(15,255)	(3,076)
Invested equity — beginning of period	251,819	159,198
Advances from Loral Corporation	<u>17,063</u>	<u>10,772</u>
Invested equity — end of period	<u>\$253,627</u>	<u>\$166,894</u>

See notes to condensed combined financial statements.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS

CONDENSED COMBINED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine months ended December 31,	
	1995	1994
Cash flows from operating activities:		
Net loss	\$(15,255)	\$ (3,076)
Equity in net loss of affiliates	11,360	5,632
Tax benefit of Globalstar partnership losses	8,253	4,496
Deferred income taxes	(5,717)	(4,051)
Gain on exchange of affiliate's debentures		(11,514)
Net cash used in operating activities	<u>(1,359)</u>	<u>(8,513)</u>
Investing activities:		
Investment in affiliates	(5,904)	(13,773)
Payment for Globalstar option territory	(9,800)	
Cash received on exchange of affiliate's debentures		11,514
Net cash used in investing activities	<u>(15,704)</u>	<u>(2,259)</u>
Financing activities:		
Advances from Loral Corporation	17,063	10,772
Net cash provided by financing activities	<u>17,063</u>	<u>10,772</u>
Net change in cash	<u>\$ —</u>	<u>\$ —</u>

See notes to condensed combined financial statements.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS

1. The accompanying unaudited condensed combined financial statements have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) and, in the opinion of Loral Corporation (“Loral”), 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 annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such SEC rules. Loral believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated statement of operations 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 annual financial statements and notes thereto included elsewhere in this Information Statement.

2. Formation of Loral Space & Communications

On January 7, 1996, 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 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 Restructuring, Financing and Distribution Agreement (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, GTL, SS/L 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 on or before the closing of the Merger, 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. The contribution from Lockheed Martin is subject to reduction for capital contributions by Loral to its space and communications businesses. On March 6, 1996, Loral purchased \$100,000,000 principal amount of GTL’s 6½% Convertible Preferred Equivalent Obligations for \$97,000,000 in cash. (See Note 6 — Subsequent Events).

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.

3. Basis of Presentation

The accompanying condensed combined financial statements reflect that portion of the space and communications assets and operations included in Loral’s historical financial statements that will be spun-off to Loral SpaceCom.

Certain other non-operating assets of Loral will also be spun-off to Loral SpaceCom as of the closing date of the merger. However, those assets, consisting of certain fixed assets and other miscellaneous assets, have not been included in the accompanying financial statements since those assets were used historically in the Loral operations acquired by Lockheed Martin.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (Continued)

4. Investment in Affiliates

Investment in affiliates is summarized as follows (in thousands):

	<u>December 31, 1995</u>	<u>March 31, 1995</u>
SS/L	\$143,105	\$140,007
Globalstar	94,163	110,970
K&F	23,576	24,290
Deferred K&F Gain	<u>(23,576)</u>	<u>(24,290)</u>
	<u>\$237,268</u>	<u>\$250,977</u>

Equity in net income (loss) of affiliates consists of (in thousands):

	<u>Nine months ended December 31,</u>	
	<u>1995</u>	<u>1994</u>
SS/L	\$ 3,098	\$ 1,222
Globalstar	(22,711)	(11,350)
Tax benefit of Globalstar partnership losses	<u>8,253</u>	<u>4,496</u>
	<u>\$(11,360)</u>	<u>\$(5,632)</u>

Loral's investment in Globalstar includes 1,674,400 shares of common stock of GTL which represents a 3.6% indirect interest in Globalstar. Loral has granted to certain officers and directors options to purchase up to 340,000 shares of GTL at an option price equal to or greater than GTL's fair market value at the date of grant. These options expire in 2007.

In 1989, Loral sold certain of its divisions to K&F for cash of \$430,000,000 and a \$30,000,000 14.75% pay-in-kind Subordinated Debenture due 2004 (the "Debenture"). K&F was formed specifically to effect the purchase of these divisions through the issuance of approximately \$400,000,000 of debt, including the Debenture, and \$65,000,000 of equity. Because K&F was highly-leveraged, uncertainties existed at the time regarding the ultimate collectibility of the Debenture and, accordingly, Loral deferred any gain recognition from the sale relating to the Debenture, as well as any pay-in-kind interest earned on the Debenture. In September 1994, the Debenture was exchanged for \$11,514,000 in cash, net of expenses, and a 22.5% voting equity interest in K&F. The cash proceeds were recorded as a non-recurring gain representing the receipt of sale proceeds deferred in the 1989 transaction. The 22.5% voting equity interest was recorded at estimated fair value, determined by independent investment bankers engaged by the Loral Board of Directors. Based on the financial position of K&F at the time of the exchange, Loral has continued to record a deferred gain for the \$25,000,000 estimated fair value of the stock received. Loral is using the equity method of accounting for its investment in K&F and accordingly, both the investment in K&F and the related deferred gain have been adjusted by Loral's share of net income or loss and amortization, over a 35 year period, of goodwill inherent in the fair value recorded. However, no equity income will be recognized until K&F has positive net worth. The Chairman of Loral is a principal shareholder of K&F and after the exchange owns approximately 27% of K&F. In addition, certain executive officers of Loral own rights to purchase approximately 4% of K&F's capital stock. Summarized financial information for K&F as of December 31, 1995 and for the nine months then ended is as follows: Current assets \$100,097,000; Non current assets \$311,931,000; Current liabilities \$61,159,000; Long-term debt \$293,000,000; Postretirement benefits other than pensions \$76,462,000; Other non current liabilities \$15,734,000; Sales \$199,784,000; Cost of sales \$158,265,000; and Net income \$505,000.

5. Globalstar Option Payment

In June 1995, Loral exercised its option to acquire exclusive service rights to certain territories for \$9,800,000 in cash paid to Globalstar.

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (Continued)

6. Subsequent Events

Credit Agreement

On December 15, 1995, Globalstar entered into a \$250,000,000 credit agreement (the "Credit Agreement") with a group of banks, which was guaranteed by Loral. In exchange for the guarantee, Globalstar and GTL entered into an agreement to issue warrants to Loral to purchase an effective 8% interest in Globalstar on a fully diluted basis. Subject to the approval of GTL's shareholders, warrants to purchase 4,185,318 shares of GTL common stock at \$26.50 per share will be issued to Loral. Proceeds received by GTL for warrants exercised will in turn be used to purchase Globalstar partnership interests under a one-for-one exchange arrangement. Upon such shareholder approval, GTL will be issued warrants to purchase an additional 1,131,168 general partnership interests in Globalstar (representing an approximate 2% equity interest in Globalstar). If GTL shareholder approval is not obtained, Globalstar will issue to Loral warrants to purchase 4,086,957 partnership interests and no Globalstar warrants will be issued to GTL. The warrants are subject to a vesting schedule, with 50% of the warrants vesting on the date that loans are first made by the banks pursuant to the Credit Agreement (the "Funding Date"), an additional 25% vesting on the first anniversary of the Funding Date and the remaining 25% vesting on the second anniversary of the Funding Date. Notwithstanding the foregoing, if the Globalstar Credit Agreement shall not be in effect on any vesting date, the warrants which would have otherwise vested on such date will be deemed to be cancelled. The warrants may not be exercised until six months after Globalstar commences initial operations and may not be transferred to third parties until such exercise date. Globalstar has also agreed to pay Loral a fee equal to 1.5% per annum of the average amount outstanding guaranteed 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.

Under the terms of the Merger Agreement, Lockheed Martin has agreed to assume the obligations of Loral as a guarantor under the Credit Agreement. Loral has agreed to assume approximately \$88,600,000 of this guarantee obligation, and SS/L and certain other Globalstar strategic partners have agreed to assume approximately \$11,700,000 and \$49,700,000 thereof, respectively. In return for providing the guarantee, the guarantors will share proportionately in the warrants described above. Globalstar is seeking an amendment to the Credit Agreement to permit the transactions contemplated in the Merger Agreement and Distribution Agreement and believes that it will receive satisfactory consents from the bank syndicate prior to the Distribution. However, failure to obtain such consents would result in an event of default at the time these transactions occur and if the Credit Agreement is cancelled, all warrants issued and issuable will be cancelled.

Purchase of GTL Convertible Preferred Equivalent Obligations

On March 6, 1996, GTL issued Convertible Preferred Equivalent Obligations (the Securities) with a face value totaling \$300,000,000 in a private placement of which \$100,000,000 principal amount was purchased by Loral at a cost of \$97,000,000. The Securities are subordinated to existing and future debt obligations of GTL, are convertible into 4,615,385 shares of GTL Common Stock at a conversion price of \$65.00 per share, bear interest at 6½% per annum payable quarterly, are redeemable (at a premium which declines over time) by GTL beginning in 2000 (or beginning in 1997 if GTL's stock price exceeds certain defined price ranges), and, if still outstanding, must be redeemed by GTL on March 1, 2006. Interest and redemption payments may be made by GTL in cash or shares of stock (see below). In the event of a change in control of GTL (as defined in the Securities agreement), holders may elect to convert their Securities into shares of GTL Common Stock based on the then average market price of GTL's stock, subject to GTL's option to redeem such obligations. GTL has agreed to file a Registration Statement with the U.S. Securities and Exchange Commission covering the Securities within 120 days.

The net proceeds of \$290,000,000 from the issuance of the Securities were used by GTL to purchase 4,615,385 Preferred Partnership Interests in Globalstar. These Preferred Partnership Interests will convert to ordinary partnership interests on a one-for-one basis upon any conversion of the Securities, will pay a quarterly

LORAL CORPORATION — SPACE & COMMUNICATIONS OPERATIONS
NOTES TO CONDENSED COMBINED FINANCIAL STATEMENTS — (Continued)

6. Subsequent Events (continued)

preferred distribution to GTL of 6½% per annum, will be allocated losses of the partnership only after all adjusted capital accounts of the ordinary partnership interests have been reduced to zero, and are redeemable on terms comparable to the Securities. Globalstar may elect to make the quarterly preferred distribution to GTL in cash or general partnership interests. If such distribution is made in cash, GTL must make its interest payment on the Securities in Cash. Globalstar may elect to defer payment of the preferred distribution; in such case, GTL may also elect to defer interest payment on the Securities, however, holders of the Securities are entitled to certain representation rights on the General Partners' Committee of Globalstar in the event six consecutive interest payments are deferred.

INDEPENDENT AUDITORS' REPORT

To the Partners of Globalstar, L.P.:

We have audited the accompanying balance sheets of Globalstar, L.P. (a development stage limited partnership) as of December 31, 1995 and 1994, and the related statements of operations, partners' capital and subscriptions receivable and cash flows for the period from March 23, 1994 (commencement of operations) to December 31, 1994, the year ended December 31, 1995 and cumulative. We have also audited the accompanying statements of operations for the year ended December 31, 1993 and the period from January 1, 1994 to March 22, 1994 (pre-capital subscription period). These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of Globalstar, L.P. at December 31, 1995 and 1994, and the results of its operations and its cash flows for the periods stated above in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP
San Jose, California
January 26, 1996
(March 6, 1996 as to Note 11)

GLOBALSTAR, L.P.
(A Development Stage Limited Partnership)

Balance Sheets
(In thousands)

	December 31,	
	1995	1994
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 71,602	\$ 73,560
Other current assets	506	190
Total current assets	72,108	73,750
Property and equipment, net	1,509	1,004
Globalstar System Under Construction:		
Space segment	348,434	59,335
Ground segment	51,823	12,661
	400,257	71,996
Deferred FCC license costs	7,056	4,521
Deferred financing costs	24,461	—
Total assets	\$505,391	\$ 151,271
LIABILITIES and PARTNERS' CAPITAL		
Current liabilities:		
Payable to affiliates	\$ 49,639	\$ 34,987
Accrued expenses	4,782	3,340
Total current liabilities	54,421	38,327
Deferred revenues	21,913	—
Vendor financing liability	42,219	—
Commitments and contingencies (Notes 4,5,6,7,9 and 10)		
Partners' Capital:		
General partners (28,000 interests outstanding at December 31, 1995 and 18,000 interests outstanding at December 31, 1994)	173,118	26,487
Limited partners (19,000 interests outstanding)	191,119	220,237
Warrants	22,601	—
	386,838	246,724
Less subscriptions receivable	—	(133,780)
Total partners' capital	386,838	112,944
Total liabilities and partners' capital	\$505,391	\$ 151,271

See notes to financial statements.

GLOBALSTAR, L.P.
(A Development Stage Limited Partnership)

Statements of Operations
(In thousands)

	Year ended December 31, 1994				Cumulative March 23, 1994 (commencement of operations) to December 31, 1995
	Pre-Capital Subscription Period		March 23 (commencement of operations) to December 31, 1994	Year ended December 31, 1995	
	Year ended December 31, 1993	January 1 to March 22, 1994			
Operating expenses:					
Development costs	\$ 6,140	\$4,057	\$21,279	\$62,854	\$84,133
Marketing, general and administrative	5,370	2,815	6,748	17,372	24,120
Total operating expenses . .	11,510	6,872	28,027	80,226	108,253
Interest income	—	—	1,783	11,989	13,772
Net loss	\$11,510	\$6,872	\$26,244	\$68,237	\$94,481

See notes to financial statements.

Globalstar, L.P.
(A Development Stage Limited Partnership)

Statements of Partners' Capital and Subscriptions Receivable
(In thousands)

Partners' Capital

	<u>General Partners</u>	<u>Limited Partners</u>	<u>Warrants</u>	<u>Total</u>
Capital subscription, March 23, 1994 (18,000 interests — general partner, and 18,000 interests — limited partners)	\$ 50,000	\$225,000		\$275,000
Cost of raising capital	(1,200)	(1,200)		(2,400)
Net losses — pre-capital subscription period:				
Year ended December 31, 1993	(5,755)	(5,755)		(11,510)
January 1, 1994 to March 22, 1994	(3,436)	(3,436)		(6,872)
Net loss — March 23, 1994 (commencement of operations) to December 31, 1994	(13,122)	(13,122)		(26,244)
Capital subscription, December 31, 1994 (1,000 partnership interests — limited partner)	<u>—</u>	<u>18,750</u>		<u>18,750</u>
Capital balances, December 31, 1994	26,487	220,237		246,724
Sale of interests to GTL, February 22, 1995 (10,000 general partnership interests)	185,750	—		185,750
Warrant agreement in connection with debt guarantee	—	—	\$22,601	22,601
Net loss — Year ended December 31, 1995	<u>(39,119)</u>	<u>(29,118)</u>	<u>—</u>	<u>(68,237)</u>
Capital balances, December 31, 1995	<u>\$173,118</u>	<u>\$191,119</u>	<u>\$22,601</u>	<u>\$386,838</u>

Subscriptions Receivable

Capital subscriptions:				
March 23, 1994	\$ 50,000	\$225,000		\$275,000
December 31, 1994	<u>—</u>	<u>18,750</u>		<u>18,750</u>
Total subscriptions	<u>50,000</u>	<u>243,750</u>		<u>293,750</u>
Cash received	(23,691)	(124,970)		(148,661)
Credit for pre-capital subscription costs	<u>(11,309)</u>	<u>—</u>		<u>(11,309)</u>
	<u>(35,000)</u>	<u>(124,970)</u>		<u>(159,970)</u>
Subscriptions receivable, December 31, 1994	15,000	118,780		133,780
Cash received	<u>(15,000)</u>	<u>(118,780)</u>		<u>(133,780)</u>
Subscriptions receivable, December 31, 1995	<u>\$ —</u>	<u>\$ —</u>		<u>\$ —</u>

See notes to financial statements.

GLOBALSTAR, L.P.
(A Development Stage Limited Partnership)

Statements of Cash Flows
(In thousands)

	March 23, 1994 (commencement of operations) to December 31, 1994	Year ended December 31, 1995	Cumulative March 23, 1994 (commencement of operations) to December 31, 1995
Cash flows from operating activities:			
Net loss	\$ (26,244)	\$ (68,237)	\$ (94,481)
Deferred revenues	—	21,913	21,913
Depreciation and amortization	115	398	513
Changes in operating assets and liabilities:			
Other current assets	—	(506)	(506)
Payable to affiliates	637	5,722	6,359
Accrued expenses	2,440	2,342	4,782
Net cash used in operating activities	<u>(23,052)</u>	<u>(38,368)</u>	<u>(61,420)</u>
Investing activities:			
Globalstar system under construction	(71,996)	(328,261)	(400,257)
Payable to affiliates for Globalstar System under construction	25,042	8,930	33,972
Vendor financing liability	—	42,219	42,219
Cash used for Globalstar System	(46,954)	(277,112)	(324,066)
Purchases of property and equipment	(1,119)	(888)	(2,007)
Deferred FCC license costs	(2,286)	(2,535)	(4,821)
Purchases of investments	—	(126,923)	(126,923)
Maturity of investments	—	126,923	126,923
Other current assets	(190)	190	—
Net cash used in investing activities	<u>(50,549)</u>	<u>(280,345)</u>	<u>(330,894)</u>
Financing activities:			
Deferred line of credit fees	—	(1,875)	(1,875)
Proceeds from capital subscriptions receivable	148,661	133,780	282,441
Payment of accrued capital raising costs	(1,500)	(900)	(2,400)
Sale of partnership interests to Globalstar Telecommunications Limited	—	185,750	185,750
Net cash provided by financing activities	<u>147,161</u>	<u>316,755</u>	<u>463,916</u>
Net increase (decrease) in cash and cash equivalents	73,560	(1,958)	71,602
Cash and cash equivalents, beginning of period	—	73,560	—
Cash and cash equivalents, end of period	<u>\$ 73,560</u>	<u>\$ 71,602</u>	<u>\$ 71,602</u>
Noncash transactions:			
Payable to affiliates	<u>\$ 9,308</u>		<u>\$ 9,308</u>
Accrual of capital raising costs	<u>\$ 2,400</u>		<u>\$ 2,400</u>
Deferred FCC license costs	<u>\$ 2,235</u>		<u>\$ 2,235</u>
Warrant agreement in connection with debt guarantee		<u>\$ 22,601</u>	<u>\$ 22,601</u>

See notes to financial statements.

Globalstar, L.P.
(A Development Stage Limited Partnership)

Notes to Financial Statements

1. Organization and Business

Globalstar, L.P. ("Globalstar" or the "Partnership"), a Delaware limited partnership with a December 31 fiscal year end, was formed in November 1993. It had no activities until March 23, 1994, when it received capital subscriptions for \$275 million and commenced operations. The accompanying financial statements reflect the operations of the Partnership from that date. In addition, the statements of operations for the year ended December 31, 1993 and the period January 1, 1994 to March 22, 1994 (the "Pre-Capital Subscription Period") reflect certain costs incurred by Loral Corporation ("Loral") and QUALCOMM Incorporated ("Qualcomm") and reimbursed by Globalstar through a capital subscription credit or agreement for reimbursement, as described in Note 8, "Partners' Capital".

The managing general partner of Globalstar is Loral/QUALCOMM Satellite Services, L.P. ("LQSS"). The general partner of LQSS is Loral/QUALCOMM Partnership, L.P. ("LQP"), a Delaware limited partnership comprised of subsidiaries of Loral and Qualcomm. The general partner of LQP is Loral General Partner, Inc. ("LGP"), a subsidiary of Loral (see Note 11 — Subsequent Events).

Globalstar was founded to design, construct and operate a worldwide, low-earth orbit ("LEO") satellite-based wireless digital telecommunications system (the "Globalstar System"). The Globalstar System's worldwide coverage is designed to enable its service providers to extend modern telecommunications services to significant numbers of people who currently lack basic telephone service and to enhance wireless communications in areas underserved or not served by existing or future cellular systems, providing a telecommunications solution in parts of the world where the build-out of terrestrial systems cannot be economically justified. On January 31, 1995, the U.S. Federal Communications Commission ("FCC") granted the necessary license to LQP to construct, launch and operate the Globalstar System. LQP has agreed to use such license for the exclusive benefit of Globalstar.

On November 23, 1994, Globalstar Telecommunications Limited ("GTL") was incorporated as an exempted company under the Companies Act 1981 of Bermuda. GTL's sole business is acting as a general partner of Globalstar. On February 14, 1995, GTL completed an initial public offering of 10,000,000 shares of common stock, of which Loral purchased 1,674,400 shares, resulting in net proceeds of \$185,750,000. Effective February 22, 1995, GTL purchased 10,000,000 partnership interests from Globalstar with the net proceeds of the initial public offering.

The partners in Globalstar have the right to convert their partnership interests into shares of GTL on a one-for-one basis following the Full Coverage Date, as defined, of the Globalstar System and after at least two consecutive reported fiscal quarters of positive net income, subject to certain annual limitations.

2. Summary of Significant Accounting Policies

Development Stage Company

The Partnership is devoting substantially all of its present efforts to the design, licensing, construction, and financing of the Globalstar System, and establishing its business. Its planned principal operations have not commenced. Accordingly, Globalstar is a development stage company as defined in Statement of Financial Accounting Standards (SFAS) No. 7 "Accounting and Reporting by Development Stage Enterprises."

Globalstar may encounter problems, delays and expenses, many of which may be beyond Globalstar's control. These may include, but are not limited to, problems related to technical development of the system, testing, regulatory compliance, manufacturing and assembly, the competitive and regulatory environment in which Globalstar will operate, marketing problems and costs and expenses that may exceed current estimates. There can be no assurance that substantial delays in any of the foregoing matters would not delay Globalstar's achievement of profitable operations.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

2. Summary of Significant Accounting Policies (continued)

Use of Estimates in Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of expenses reported for the period. Actual results could differ from estimates.

Net (Loss) Income Allocation

Net losses of the Partnership are allocated among the partners in proportion to their percentage interests until the adjusted capital account of a partner is reduced to zero, then in proportion to, and to the extent of, positive adjusted capital account balances and then to the general partners.

Net income of the Partnership is allocated among the partners in proportion to, and to the extent of, the distributions made to the partners from distributable cash flow for the period, as defined, then in proportion to and to the extent of negative adjusted capital account balances and then in accordance with percentage interests.

Under the terms of the Partnership Agreement, adjusted partners' capital accounts are calculated in accordance with the principles of U.S. Treasury Regulations governing the allocation of taxable income and loss including adjustments to reflect the fair market value (including intangibles) of partnership assets upon certain capital transactions including a sale of partnership interests. Such adjustments are not permitted under generally accepted accounting principles and, accordingly, are not reflected in the accompanying financial statements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with original maturities of three months or less.

Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets, generally three to eight years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements.

Globalstar System Under Construction

Globalstar System Under Construction expenditures include and will include progress payments and costs for the design, manufacture, test, launch and launch insurance for 48 low-earth orbit satellites, plus eight in-orbit spares (the "Space Segment"), and ground and satellite operations control centers, gateways and subscriber terminals (handsets) (the "Ground Segment").

The Partnership intends to depreciate the Space Segment over 7½ years and to capitalize costs of the Ground Segment over eight years as assets are placed in service. Service is currently anticipated to commence in 1998.

Costs incurred related to the development of certain technologies, pursuant to a cost sharing arrangement included in Globalstar's contract with Qualcomm and for the engineering and development of subscriber terminals, are being charged to operations as incurred.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

2. Summary of Significant Accounting Policies (continued)

Financing Costs and Interest

Deferred financing costs represent costs incurred in obtaining a long-term credit facility and the estimated fair value of a warrant agreement in connection with a guarantee of this facility (see Note 6-Credit Facility). Such costs are being amortized over the term of the credit facility as interest.

Interest costs incurred during the construction of the Globalstar System are capitalized. Total interest costs capitalized for the year ended December 31, 1995 was approximately \$300,000. No interest was capitalized for the period ending December 31, 1994.

FCC License Costs

Expenditures, including license fees, legal fees and direct engineering and other technical support, for obtaining the required FCC licenses are capitalized and will be amortized over 7½ years, the expected life of the first generation satellites.

Deferred Revenues

Advance payments from Globalstar strategic partners to secure exclusive rights to Globalstar service territories are deferred. These advance payments are recoverable by the service providers through credits against a portion of the service fees payable to Globalstar after the commencement of services.

Vendor Financing

Globalstar's Space Segment contract with Space Systems/Loral, Inc. ("SS/L") calls for a portion of the contract price to be deferred as vendor financing and repaid, over as long as a five-year period, commencing upon the initial service and full coverage dates of the Globalstar System. Amounts deferred as vendor financing are capitalized as costs of the Globalstar System Under Construction as incurred.

Income Taxes

Globalstar was organized as a Delaware limited partnership. As such, no income tax provision (benefit) is included in the accompanying financial statements since U.S. income taxes are the responsibility of its partners. Generally, taxable income (loss), deductions and credits of Globalstar will be passed proportionately through to its partners.

Accounting Pronouncements

In October 1995, the Financial Accounting Standards Board issued Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which is required to be adopted by fiscal 1996. SFAS 123 establishes accounting and disclosure requirements using a fair value based method of accounting for stock based employee compensation plans, including stock arrangements by investors for the benefit of their investees. Under SFAS 123 Globalstar may either adopt the new fair value based accounting method or continue the intrinsic value based method and provide pro forma disclosures of net income (loss) as if the accounting provisions of SFAS 123 had been adopted. Globalstar intends to elect to continue the intrinsic value method of accounting for stock based employee compensation plans and provide the required pro-forma disclosures; therefore such adoption will have no effect on Globalstar's operations. Globalstar accounts for equity transactions with non-employees under SFAS 123.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

3. Property and Equipment

	December 31,	
	1995	1994
	(In thousands)	
Property and equipment consists of:		
Leasehold improvements	\$ 401	\$ 396
Furniture and office equipment	1,606	723
	2,007	1,119
Accumulated depreciation and amortization	(498)	(115)
	<u>\$1,509</u>	<u>\$1,004</u>

Depreciation and amortization expense for the year ended December 31, 1995, and for the period March 23 to December 31, 1994, was \$383,000 and \$115,000, respectively.

4. Globalstar System Under Construction

The Space Segment

Globalstar has entered into a contract with SS/L, an affiliate of Loral and a limited partner of LQSS, to design, manufacture, test and launch its satellite constellation. The price of the contract consists of three parts, the first for non-recurring work at a price not to exceed \$115.7 million, the second for recurring work at a fixed price of \$15.6 million per satellite (including certain performance incentives of up to approximately \$1.9 million per satellite) and the third for launch services and insurance. The total contract price reflects certain scope of work claims negotiated with SS/L during 1995.

Under the contract, SS/L will design, build and launch Globalstar's 56 satellites. SS/L has agreed to obtain launch vehicles and arrange for the launch of Globalstar's satellites on Globalstar's behalf at an estimated total cost of \$302 million for all 56 satellites, and obtain insurance to cover the replacement cost of satellites or launch vehicles lost in the event of a launch failure for an estimated cost of \$92 million. In certain circumstances these amounts are subject to equitable adjustment in light of future market conditions, which may, in turn, be influenced by international political developments. Any change in such assumptions may result in an increase in the costs paid by Globalstar, which may be substantial. Termination by Globalstar of this contract would result in termination fees, which may be substantial.

SS/L has entered into subcontracts with certain of Globalstar's direct or indirect limited partners. The design and manufacture of the payload modules will be performed by Alcatel Espace at a fixed price of approximately \$208 million, subject to certain adjustments. Fixed price subcontracts in the amounts of \$202 million, \$178 million and \$41 million have also been awarded to Alenia Spazio S.p.A., Daimler-Benz Aerospace AG and Aerospaziale, respectively. Globalstar, SS/L and Hyundai Electronics Industries Co. Ltd. ("Hyundai") have entered into a subcontract providing work for Hyundai in an amount of approximately \$44 million. Globalstar and SS/L have further agreed to support Hyundai in its efforts as a satellite vendor, including providing training and transferring certain technology know-how to Hyundai for compensation to be agreed upon among the parties.

The Ground Segment

Globalstar has entered into a contract with Qualcomm providing for the design, development, manufacture, installation, testing and maintenance of four gateways, two ground operations control centers and 100 pre-production subscriber terminals. A portion of the ground operations control center software is being developed by Globalstar. The contract provides for reimbursement to Qualcomm for contract costs incurred

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

4. Globalstar System Under Construction (continued)

such as labor, material, travel, license fees, royalties and general and administrative expenses, plus a 12% fee thereon. The contract also includes a cost sharing arrangement for certain technologies being developed by Qualcomm. As of December 31, 1995, Globalstar estimates that payments under the contract will total approximately \$309 million. Termination by Globalstar of its contract with Qualcomm would result in termination fees, which may be substantial.

A letter agreement among Qualcomm, Globalstar and Hyundai grants to Hyundai an option to become a licensee authorized to manufacture and sell Globalstar subscriber terminals to service providers. Should Hyundai choose to exercise this option, it would, for a five year period following Globalstar's In-Service date, be the exclusive licensee authorized to manufacture and sell subscriber terminals in South and North Korea.

Globalstar will receive from Qualcomm or its licensee(s) a payment of approximately \$400,000 for each installed gateway sold to a Globalstar service provider. In addition, Globalstar will receive a payment of up to \$10 on each Globalstar subscriber terminal sold, until Globalstar's funding of that design has been recovered.

Globalstar has entered into an agreement with a subsidiary of Loral for the development and delivery of two satellite operations control centers and 33 telemetry and command units for the Globalstar System. The maximum contract price is \$25.1 million and provides for reimbursement to the Loral subsidiary for contract costs incurred such as labor, materials, travel, license fees, royalties and general and administrative expenses. The Loral subsidiary will receive a 12% fee under the contract, 6% of which is payable at the time the costs are incurred, with the remainder payable upon achievement of certain milestones. Globalstar will own any intellectual property produced under the contract.

Total System Cost

At December 31, 1995, Globalstar has estimated the cost for the design, construction and deployment of the Globalstar System, excluding working capital, cash interest on anticipated borrowings and operating expenses to be approximately \$1.8 billion. Actual amounts may vary from this estimate and additional funds would be required in the event of unforeseen delays, cost overruns, launch failures or other technological risks or adverse regulatory developments, or to meet unanticipated expenses.

Additional funds to complete the Globalstar System are expected to be obtained through a combination of debt issuance, which may include an equity component, projected service provider payments, projected net service revenues from initial operations, anticipated payments received from the sale of gateways and Globalstar subscriber terminals and placements of limited partnership interests with new and existing strategic investors. Although Globalstar believes it will be able to obtain this additional financing, there can be no assurance that the financing will be available on favorable terms or on a timely basis, if at all.

5. Vendor Financing Liability

Globalstar's space segment contract with SS/L calls for approximately \$310 million of the contract price to be deferred as vendor financing. Of the \$310 million, \$90 million is interest bearing at the 30-day LIBOR rate plus 3% per annum. The remaining \$220 million of vendor financing is non-interest bearing. Globalstar will repay the non-interest bearing portions as follows: \$49 million following the launch and acceptance of 24 or more satellites (the "Preliminary Constellation"), \$61 million upon the launch and acceptance of 48 or more satellites (the "Full Constellation"); and the remainder in equal installments over the five-year period following acceptance of the Preliminary and Full Constellations. Payment of the \$90 million interest bearing vendor financing will be deferred until December 31, 1998 or the Full Constellation Date, whichever is earlier. Thereafter, interest and principal will be repaid in twenty equal quarterly installments over the next five years.

At December 31, 1995, approximately \$21.5 million of the vendor financing liability is interest bearing.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

6. Credit Facility

On December 15, 1995, Globalstar entered into a \$250 million credit agreement (the "Credit Agreement") with a group of banks, which was guaranteed by Loral (see Note 11 — Globalstar Credit Agreement). The Credit Agreement provides that Globalstar may select loan arrangements at varying interest rates, including the Eurodollar rate plus 5/8%. Globalstar pays a commitment fee on the unused portion. The Credit Agreement contains covenants requiring Globalstar to meet certain financial ratios including minimum net worth of \$200 million and limits additional indebtedness and the payment of cash dividends. The Credit Agreement expires on December 15, 2000.

In exchange for the guarantee, Globalstar and GTL entered into an agreement to issue warrants to Loral to purchase an effective 8% interest in Globalstar on a fully diluted basis. Subject to the approval of GTL's shareholders, warrants to purchase 4,185,318 shares of GTL common stock at \$26.50 per share will be issued to Loral. Proceeds received by GTL for warrants exercised will in turn be used to purchase Globalstar partnership interests under a one-for-one exchange arrangement. Upon such shareholder approval, GTL will be issued warrants to purchase an additional 1,131,168 general partnership interests in Globalstar (representing an approximate 2% equity interest in Globalstar). If GTL shareholder approval is not obtained, Globalstar will issue to Loral warrants to purchase 4,086,957 partnership interests and no Globalstar warrants will be issued to GTL. The warrants are subject to a vesting schedule, with 50% of the warrants vesting on the date that loans are first made by the banks pursuant to the Credit Agreement (the "Funding Date"), an additional 25% vesting on the first anniversary of the Funding Date and the remaining 25% vesting on the second anniversary of the Funding Date. Notwithstanding the foregoing, if the Globalstar Credit Agreement shall not be in effect on any vesting date, the warrants which would have otherwise vested on such date will be deemed to be cancelled. The warrants may not be exercised until six months after Globalstar commences initial operations and may not be transferred to third parties until such exercise date. The estimated fair value of the warrant agreement with Loral in exchange for its guarantee has been recorded as a deferred financing cost in the accompanying financial statements. Globalstar has also agreed to pay Loral a fee equal to 1.5% per annum of the average amount outstanding guaranteed 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; in such case, rights to a proportionate amount of the warrants and fees will also be transferred. In addition, as a result of the Merger Agreement (see Note 11 — Subsequent Events), Globalstar is seeking an amendment to the Credit Agreement. If such amendment is not obtained and the Credit Agreement is cancelled, all warrants issued and issuable will be cancelled.

7. Commitments

The following is a schedule by years of future minimum lease payments (in thousands) required under an operating lease that has an initial lease term in excess of one year.

1996	\$ 869
1997	891
1998	914
1999	936
2000	<u>633</u>
Total minimum payments required	<u>\$4,243</u>

Rent expense for the year ended December 31, 1995, and the period March 23 to December 31, 1994, was approximately \$934,000 (including \$650,000 paid to Loral subsidiaries), and \$373,000 (including \$275,000 paid to Loral subsidiaries), respectively.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

8. Partners' Capital

Initial Capital Subscriptions

Prior to the commencement of Globalstar's operations on March 23, 1994, Loral and Qualcomm undertook independent efforts at their own risk to explore the feasibility of a Globalstar-type system. Efforts to develop the Globalstar System were formalized with the initial funding of Globalstar on March 23, 1994 through capital subscriptions of \$50,000,000 for 18,000,000 general partner interests and \$225,000,000 for an aggregate of 18,000,000 limited partner interests. In connection with the initial capital subscriptions, the partners of Globalstar agreed to reimburse Loral and Qualcomm for certain expenditures totaling \$18,382,000, incurred related to such efforts from January 1, 1993 through March 22, 1994. These expenditures included development costs and marketing, general and administrative expenses related to the Globalstar System. The statements of operations include the costs for these periods under the heading Pre-Capital Subscription Period.

In addition, costs of \$2,235,000 were incurred in connection with the FCC license application. The aggregate expenditures by Loral and Qualcomm of \$20,617,000 were reimbursed through a credit of \$11,309,000 issued to the general partner as a reduction of its required capital subscription payment and an agreement to repay Qualcomm \$9,308,000 over a one-year period (\$2,499,000 of which remained outstanding at December 31, 1994). The reimbursed expenses of \$18,382,000 have been charged to partners' capital as of the date of the capital subscription agreement and allocated to the partners' capital accounts in accordance with the partnership agreement. The \$2,235,000 of costs relating to the FCC license application are included in the Partnership's balance sheet.

Stock Option Arrangements

Officers and employees of Globalstar are eligible to participate in GTL's 1994 Stock Option Plan (the "Plan"), which provides for nonqualified and incentive stock options. The plan is administered by a stock option committee (the "Committee"), appointed by the Board of Directors of GTL. The Committee determines the option price (provided that in no event shall such option price be less than the fair market value of the shares of common stock as of the date such option is granted), the option's exercise date and the expiration date of each option (provided no option shall be exercisable after the expiration of ten years from the date of grant). Proceeds received by GTL for options exercised will in turn be used to purchase Globalstar partnership interests under a one-for-one exchange arrangement.

In September 1995, options to purchase 110,400 shares of GTL Common Stock were granted under the Plan at an exercise price of \$16.625. No options were exercised or cancelled during the year. The options generally expire ten years from the date of grant and become exercisable over the period stated in each option, generally ratably over a five-year period. All options granted during the year were non-qualified stock options. As of December 31, 1995, 139,600 shares of common stock were available for future grant under the Plan.

In September 1995, Loral, in its capacity as managing general partner, granted certain directors and officers options to purchase 340,000 shares of the GTL Common Stock owned by Loral at a weighted average exercise price of \$27.87 (such prices were greater than or equal to the market price at grant date). Such options are immediately exercisable, and expire 12 years from date of grant; no options were exercised or cancelled during the year.

9. Related Party Transactions

In addition to the transactions described in Notes 4, 5, 6, 7 and 8, Globalstar has a number of other transactions with its affiliates. Globalstar believes that the arrangements are as favorable to Globalstar as could be obtained from unaffiliated parties. The following describes these related-party transactions.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

9. Related Party Transactions (continued)

Globalstar has granted to SS/L an irrevocable, royalty-free, non-exclusive license to use certain intellectual property expressly developed in connection with the SS/L agreement provided that SS/L will not use, or permit others to use, such license for the purpose of engaging in any business activity that would be in material competition with Globalstar. Globalstar has similarly agreed that it will not license such intellectual property if it will be used for the purpose of designing or building satellites that would be in competition with SS/L.

Globalstar has granted to Qualcomm an irrevocable, non-exclusive, worldwide perpetual license to intellectual property owned by Globalstar in the Ground Segment and developed pursuant to the Qualcomm agreement. Qualcomm may, pursuant to such grant, use the intellectual property for applications other than the Globalstar System provided that Qualcomm may not for a period of three years after its withdrawal as a strategic partner or prior to the third anniversary of the Full Constellation Date, whichever is earlier, engage in any business activity that would be in competition with the Globalstar System. The grant of intellectual property to Qualcomm described above is generally royalty free. Under certain specified circumstances, however, Qualcomm will be required to pay a 3% royalty fee on such intellectual property.

A support agreement was entered into among Qualcomm, Loral and Globalstar pursuant to which Qualcomm agreed to (i) assist Globalstar and SS/L with Globalstar's system design, (ii) support Globalstar and Loral with respect to various regulatory matters, including the FCC application and (iii) assist Globalstar and Loral in their marketing efforts with respect to Globalstar. For the year ended December 31, 1995, and for the period March 23 through December 31, 1994, Qualcomm has received approximately \$2,712,000 and \$2,431,000, respectively, for costs incurred in rendering such support and assistance.

Certain of Globalstar's limited partners have signed agreements granting them the right to provide Globalstar System services to users in specific countries on an exclusive basis, as long as specified minimum levels of subscribers are met. These service providers will receive certain discounts from Globalstar's expected pricing schedule generally over a five-year period.

Globalstar has entered into consulting agreements with certain limited partners. Costs incurred under these arrangements for the year ended December 31, 1995, and for the period March 23 through December 31, 1994, were \$1,411,000 and \$471,000, respectively. Globalstar anticipates that similar agreements may be entered into with other strategic partners in the future.

	December 31,	
	1995	1994
	(In thousands)	
Current payable to affiliates consisted of:		
SS/L	\$26,126	\$22,046
Qualcomm	21,443	11,795
Other Loral affiliates	<u>2,070</u>	<u>1,146</u>
Total	<u>\$49,639</u>	<u>\$34,987</u>

Commencing after the initiation of Globalstar services, LQP, the general partner of LQSS, will be paid an annual management fee equal to 2.5% of Globalstar's revenues up to \$500 million plus 3.5% of revenues in excess of \$500 million. Should Globalstar incur a net loss in any year following commencement of services, the management fee for that year will be reduced by 50% and LQP will reimburse Globalstar for management fee payments, if any, received in any prior quarter of such year, sufficient to reduce its management fee for the year to 50%. No management fees have been paid to date.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

9. Related Party Transactions (continued)

Globalstar employees are eligible to participate in the employee benefit plans of a Loral subsidiary. Globalstar is charged for the actual costs of these benefits which for the period March 23 through December 31, 1994, amounted to \$321,000, including \$55,000 relating to pensions and retiree health care and life insurance benefits. The costs incurred for the year ended December 31, 1995 amounted to \$710,000, including \$121,000 relating to pensions and retiree health care and life insurance benefits. Globalstar employees are eligible to participate in a defined benefit pension plan with voluntary contributions if they are over 21 years old and have one year of service. Benefits are generally based on participants' compensation, years of service and voluntary contributions. Globalstar employees are also eligible for retiree health care and life insurance benefits upon retirement from active service with at least 10 years of service. 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.

Globalstar leases its facility from a Loral subsidiary under an operating lease requiring monthly payments of approximately \$72,000. The lease expires in August 2000; however Globalstar has the option to renew the lease for two additional five-year periods.

10. Regulatory Matters

Globalstar and its operations are, and will be, subject to substantial U.S. and international regulation, including required regulatory approvals in each country in which Globalstar intends to provide service. Globalstar's business may be significantly affected by regulatory activities.

11. Subsequent Events

Merger Agreement

On January 7, 1996, 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 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 Restructuring, Financing and Distribution Agreement (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, GTL, SS/L 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 on or before the closing of the Merger, 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. The contribution from Lockheed Martin is subject to reduction for capital contributions by Loral to its space and communications businesses. On March 6, 1996, Loral purchased \$100,000,000 principal amount of GTL's 6½% Convertible Preferred Equivalent Obligations for \$97,000,000 in cash (see below).

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.

Globalstar, L.P.
(A Development Stage Limited Partnership)
Notes to Financial Statements — (Continued)

11. Subsequent Events (continued)

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.

Globalstar Credit Agreement

Under the terms of the Merger Agreement, Lockheed Martin agreed to assume the obligations of Loral as a guarantor under the Credit Agreement (see Note 6 — Credit Facility). Loral has agreed to assume approximately \$88,600,000 of this guarantee obligation and SS/L and certain other Globalstar strategic partners have agreed to assume approximately \$11,700,000 and \$49,700,000 thereof, respectively. In return for providing the guarantee, the guarantors will share proportionately in the warrants. Globalstar is seeking an amendment to the Credit Agreement to permit the transactions contemplated in the Merger Agreement and Distribution Agreement and believes that it will receive satisfactory consents from the bank syndicate prior to the Distribution. However, failure to obtain such consents would result in an event of default at the time these transactions occur.

Sale of GTL Convertible Preferred Equivalent Obligations

On March 6, 1996, GTL issued Convertible Preferred Equivalent Obligations (the "Securities") with a face value totaling \$300,000,000 in a private placement of which \$100,000,000 principal amount was purchased by Loral at a cost of \$97,000,000. The Securities are subordinated to existing and future debt obligations of GTL, are convertible into 4,615,385 shares of GTL Common Stock at a conversion price of \$65.00 per share, bear interest at 6½% per annum payable quarterly, are redeemable (at a premium which declines over time) by GTL beginning in 2000 (or beginning in 1997 if GTL's stock price exceeds certain defined price ranges), and, if still outstanding, must be redeemed by GTL on March 1, 2006. Interest and redemption payments may be made by GTL in cash or shares of stock (see below). In the event of a change in control of GTL (as defined in the Securities agreement), holders may elect to convert their Securities into shares of GTL Common Stock based on the then average market price of GTL's stock, subject to GTL's option to redeem such obligations. GTL has agreed to file a Registration Statement with the U.S. Securities and Exchange Commission covering the Securities within 120 days.

The net proceeds of \$290,000,000 from the issuance of the Securities were used by GTL to purchase 4,615,385 Preferred Partnership Interests in Globalstar. These Preferred Partnership Interests will convert to ordinary partnership interests on a one-for-one basis upon any conversion of the Securities, will pay a quarterly preferred distribution to GTL of 6½% per annum, will be allocated losses of the partnership only after all adjusted capital accounts of the ordinary partnership interests have been reduced to zero, and are redeemable on terms comparable to the Securities. Globalstar may elect to make the quarterly preferred distribution to GTL in cash or general partnership interests. If such distribution is made in cash, GTL must make its interest payment on the Securities in Cash. Globalstar may elect to defer payment of the preferred distribution; in such case, GTL may also elect to defer interest payment on the Securities, however, holders of the Securities are entitled to certain representation rights on the General Partners' Committee of Globalstar in the event six consecutive interest payments are deferred.

INDEPENDENT AUDITORS' REPORT

Space Systems/Loral, Inc.

We have audited the accompanying consolidated balance sheets of Space Systems/Loral, Inc. and its subsidiaries as of March 31, 1995 and 1994, and the related consolidated statements of operations, shareholders' equity 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Space Systems/Loral, Inc. and its subsidiaries at March 31, 1995 and 1994, and the 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 Note 9 to the consolidated financial statements, in 1993 the Company changed its method of accounting for postretirement benefits other than pensions.

DELOITTE & TOUCHE LLP

San Jose, California
May 2, 1995

SPACE SYSTEMS/LORAL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	March 31,	
	1995	1994
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 52,222	\$ 26,578
Contracts in process, net	203,406	247,428
Inventories	9,853	19,772
Deposits and other current assets	20,129	6,770
Total current assets	285,610	300,548
Property, plant and equipment	247,851	226,059
Less, accumulated depreciation and amortization	90,530	69,400
	157,321	156,659
Cost in excess of net assets acquired, less amortization	239,406	246,150
Long-term receivables	52,900	11,171
Investment in affiliates	7,837	2,400
Prepaid pension cost and other assets	23,401	26,088
	<u>\$766,475</u>	<u>\$743,016</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 63,344	\$ 35,686
Accrued payroll	17,812	17,972
Customer advances	115,950	76,265
Deferred income taxes	50,280	35,850
Other current liabilities	6,947	6,906
Total current liabilities	254,333	172,679
Long-term debt	34,040	92,249
Deferred income taxes	6,335	10,365
Postretirement and other liabilities	34,000	35,150
Minority interest in ISTI	2,266	2,626
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Preferred stock \$.10 par value; 100,000 authorized and unissued shares	—	—
Common stock, \$.10 par value; authorized 100,000 shares, 4,000 shares issued and outstanding	466,668	466,668
Accumulated deficit	(31,167)	(36,721)
Total shareholders' equity	435,501	429,947
	<u>\$766,475</u>	<u>\$743,016</u>

See notes to consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands)

	For the years ended March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Revenues from contracts	\$633,717	\$596,267	\$517,242
Contract costs	<u>605,932</u>	<u>571,303</u>	<u>497,387</u>
Gross profit	27,785	24,964	19,855
Amortization of cost in excess of net assets acquired	6,744	6,744	6,744
Management fee	<u>3,169</u>	<u>2,981</u>	<u>2,576</u>
Operating income	17,872	15,239	10,535
Interest income	4,538	1,962	984
Interest expense	3,214	3,396	5,937
Other income	<u> </u>	<u> </u>	<u>3,500</u>
Income before income taxes, minority interest, equity in net loss of affiliate and cumulative effect of change in accounting	19,196	13,805	9,082
Provision for income taxes	<u>11,946</u>	<u>10,458</u>	<u>6,488</u>
Income before minority interest, equity in net loss of affiliate and cumulative effect of change in accounting	7,250	3,347	2,594
Minority interest in losses of ISTI	360	244	
Equity in net loss of affiliate	<u>(2,056)</u>	<u> </u>	<u> </u>
Income before cumulative effect of change in accounting	5,554	3,591	2,594
Cumulative effect of change in accounting for postretirement benefits, net of income taxes of \$12,141	<u> </u>	<u> </u>	<u>(20,670)</u>
Net income (loss)	<u>\$ 5,554</u>	<u>\$ 3,591</u>	<u>\$ (18,076)</u>

See notes to consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended March 31, 1995, 1994, and 1993
(In thousands, except share data)

	<u>Common Stock</u>		<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares Issued</u>	<u>Amount</u>		
Balance March 31, 1992	3,000.00	\$350,001	\$(22,236)	\$327,765
Sale of common stock	571.43	66,667		66,667
Exercise of warrant	428.57	50,000		50,000
Net loss			(18,076)	(18,076)
Balance March 31, 1993	4,000.00	466,668	(40,312)	426,356
Net income			3,591	3,591
Balance March 31, 1994	4,000.00	466,668	(36,721)	429,947
Net income			5,554	5,554
Balance March 31, 1995	<u>4,000.00</u>	<u>\$466,668</u>	<u>\$(31,167)</u>	<u>\$435,501</u>

See notes to consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the years ended March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Cash flows from operating activities:			
Net income (loss)	\$ 5,554	\$ 3,591	\$ (18,076)
Cumulative effect of change in accounting			20,670
Depreciation and amortization	29,468	28,393	27,739
Deferred income taxes	11,507	9,270	6,528
Minority interest in losses of ISTI	(360)	(244)	
Equity in net loss of affiliate	2,056		
Changes in operating assets and liabilities:			
Contracts in process, including long-term receivables	2,293	(84,430)	(57,505)
Inventories	9,919	(48)	(8,070)
Deposits and other current assets	(13,359)	(3,846)	(853)
Prepaid pension cost and other assets	2,687	(1,160)	2,832
Accounts payable and other current liabilities	27,539	2,199	(2,625)
Customer advances	39,685	66,115	6,771
Postretirement and other liabilities	(1,150)	(533)	(1,083)
Net cash provided by (used in) operating activities	<u>115,839</u>	<u>19,307</u>	<u>(23,672)</u>
Investing activities:			
Capital expenditures	(23,386)	(22,569)	(23,294)
Investment in LQSS	(3,600)	(2,400)	
Investment in Orion	(5,000)		
Net cash used in investing activities	<u>(31,986)</u>	<u>(24,969)</u>	<u>(23,294)</u>
Financing activities:			
Sale of common stock			66,667
Proceeds from borrowings	151,791	364,249	302,000
Repayment of debt	(210,000)	(345,000)	(320,000)
Sale of minority interest in ISTI		2,870	
Net cash (used in) provided by financing activities	<u>(58,209)</u>	<u>22,119</u>	<u>48,667</u>
Net increase in cash and cash equivalents	25,644	16,457	1,701
Cash and cash equivalents, beginning of year	26,578	10,121	8,420
Cash and cash equivalents, end of year	<u>\$ 52,222</u>	<u>\$ 26,578</u>	<u>\$ 10,121</u>
Supplemental information:			
Interest paid during the year, net of amounts capitalized ...	<u>\$ 2,099</u>	<u>\$ 2,813</u>	<u>\$ 6,352</u>
Income taxes paid during the year	<u>\$ 439</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Basis of Presentation

Space Systems/Loral, Inc. ("SS/L" or the "Company") was formed in October 1990 through the acquisition of the Space Systems Division of Ford Aerospace Corporation. As of March 31, 1995, SS/L is a corporate joint venture which is effectively owned 32.7% by Loral Aerospace Holdings, Inc. ("LAH") and its wholly owned subsidiary, Loral Aerospace Corp. ("LAC"), 18.3% by certain Merchant Banking Partnerships affiliated with Lehman Brothers Holdings Inc. and 49% owned by four international aerospace and communications companies (the "Alliance Partners"). LAH is a corporation wholly owned by Loral Corporation ("Loral"). SS/L operates under various agreements which specify actions which can be taken by it or its equity investors. The consolidated financial statements include the accounts of SS/L, its wholly owned foreign sales corporation subsidiary, and International Space Technology, Inc. ("ISTI"), a partially owned, corporate joint venture. All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents

The Company classifies investments that are readily convertible into cash and have original maturities of three months or less as cash equivalents. Cash equivalents are valued at cost plus accrued interest which approximates market.

Financial Instruments

The Company believes that the carrying values of its financial instruments approximate their fair value, except as discussed in Note 4.

Concentration of Credit Risk and Major Customers

Financial instruments which potentially subject The Company to concentrations of credit risk consist principally of cash and cash equivalents, foreign exchange contracts (See Note 4) and contracts in process and long-term receivables ("Contract Receivables"). The Company's cash and cash equivalents are maintained with high-credit-quality financial institutions. The Company's customers are U.S. and foreign governments and large multinational corporations. The credit worthiness of such institutions is generally substantial and the Company believes that its credit evaluation, approval and monitoring processes mitigates potential credit risks. The Company generally obtains insurance to mitigate collection risk associated with in-orbit deliveries.

Sales to the U.S. government represented 23%, 23% and 25% of revenues from contracts for the years ended March 31, 1995, 1994 and 1993, respectively. Sales to foreign customers, primarily in Asia, represented 15%, 31% and 40% of revenues from contracts for the year ended March 31, 1995, 1994 and 1993, respectively. In 1995, four commercial customers represented 23%, 20%, 15% and 13% of revenues from contracts. Two commercial customers represented 35% and 29% of revenues from contracts in 1994, and 36% and 31% of revenues from contracts in 1993.

Inventories

Inventories consist principally of high reliability parts and are valued at the lower of cost or market. Cost is determined using the first-in-first-out (FIFO) or average cost method.

Revenue Recognition

Revenues under long-term fixed-price contracts are recognized using the cost-to-cost percentage-of-completion method. Contract revenues include estimated orbital incentives discounted to present value at the launch date. Contract costs include the development effort required for the production of high-technology

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (continued)

satellites, non-recurring engineering and design efforts in early periods of contract performance, as well as the cost of qualification testing requirements.

Revenues under cost-reimbursable type contracts are recognized as costs are incurred; incentive fees are estimated and recognized over the contract term.

A significant portion of the Company's revenue is associated with long-term contracts and programs in which there are inherent risks. These risks include difficulty of forecasting costs and schedules, contract revenues related to performance in accordance with contract specifications (including orbital incentives), potential for component obsolescence in connection with long-term procurements and other factors characteristic of the industry.

Contracts with the U.S. government are, by their terms, subject to termination by the U.S. government either for its convenience or for default of the contractor. Other government contract risks include dependence on future appropriations and administrative allotment of funds and changes in government policies. Costs incurred under U.S. government contracts are subject to audit; management believes the results of such audits, when conducted, will not have a material effect on the Company's financial position.

Losses on contracts are recognized when determined. Revisions in profit estimates are reflected in the period in which the conditions that require the revision become known and are estimable.

In accordance with industry practice, contracts-in-process include 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. Maintenance and repairs are expensed as incurred; renewals and betterments are capitalized. Generally, when assets are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is included in the results of operations. Depreciation is provided using predominantly accelerated methods over the estimated useful lives of the related assets (buildings and improvements 20 to 45 years; all other assets 2 to 10 years). Leasehold improvements are amortized over the shorter of the lease term or the estimated useful lives of the improvements.

Foreign Exchange Contracts

The Company enters into foreign exchange contracts as hedges against fluctuations of future foreign accounts receivable and accounts payable. Realized and unrealized gains and losses on foreign exchange contracts designated and effective as hedges of foreign currency exposure are deferred and recognized over the lives of the related contracts in process.

Cost in Excess of Net Assets Acquired

Cost in excess of the fair value of net assets acquired, arising from the acquisition of SS/L by LAH effective October 1990, is being amortized over 40 years using the straight-line method. Accumulated amortization was \$30,081,000, \$23,337,000 and \$16,593,000 at March 31, 1995, 1994 and 1993, 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, 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.

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

1. Summary of Significant Accounting Policies (continued)

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 does not expect the adoption of the standard to have any material impact on its financial position or results of operations.

2. Contracts in Process

	March 31,	
	1995	1994
	(In thousands)	
U.S. government contracts:		
Amounts billed	\$ 8,319	\$ 17,525
Unbilled contract receivables	<u>15,562</u>	<u> </u>
	<u>23,881</u>	<u>17,525</u>
Commercial contracts:		
Amounts billed	35,217	27,603
Unbilled contract receivables	<u>144,308</u>	<u>202,300</u>
	<u>179,525</u>	<u>229,903</u>
	<u>\$203,406</u>	<u>\$247,428</u>

Unbilled amounts include recoverable costs and accrued profit on progress completed which has not been billed. Such amounts are billed upon shipment of the product, achievement of contractual milestones, or completion of the contract and are reclassified to billed receivables.

Payment terms and conditions vary between contracts, however, SS/L generally requires, for commercial contracts, advance deposits equal to varying percentages of the total contract amount.

Billed receivables relating to long-term contracts shown above are expected to be collected within one year. Upon launch of a satellite, the Company reclassifies the orbital component of unbilled receivables to long term. During the years ended March 31, 1995 and 1994, \$41,973,000 and \$10,832,000, respectively, were reclassified to long-term receivables. Current and long-term receivable balances related to satellite orbitals at March 31, 1995 are scheduled to be received as follows (in thousands):

1996	\$ 7,061
1997	4,713
1998	6,239
1999	6,247
2000	5,453
Thereafter	<u>30,248</u>
	<u>\$59,961</u>

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. Contracts in Process (continued)

Selling, general and administrative expenses for the year ended March 31, 1995, 1994 and 1993 were \$31,163,000, \$26,398,000 and \$27,691,000 and include independent research and development costs of \$9,471,000, \$6,697,000 and \$8,031,000, respectively.

3. Property, Plant and Equipment

	March 31,	
	1995	1994
	(In thousands)	
Land	\$ 22,300	\$ 22,300
Buildings and improvements	57,331	54,776
Machinery, equipment, furniture and fixtures	151,389	137,078
Leasehold improvements	5,133	4,078
Construction-in-process	11,698	7,827
	\$247,851	\$226,059

Depreciation and amortization expense was \$22,724,000, \$21,649,000 and \$20,995,000, and capitalized interest costs were \$100,000, \$373,000 and \$485,000 for the years ended March 31, 1995, 1994 and 1993, respectively.

4. Financing Arrangements

Foreign currency exchange facilities

At March 31, 1995 and 1994, the Company had foreign currency exchange contracts (forwards and swaps) with several banks to purchase and sell \$296,349,000 and \$345,784,000, respectively, of foreign currencies; such contracts were designated as hedges of certain foreign contracts and subcontracts maturing over the next eleven years. The fair value of these contracts, based on quoted market prices, was \$352,273,000 and \$402,113,000 at March 31, 1995 and 1994, respectively. At March 31, 1995 deferred losses on forward contracts to sell yen were \$53,836,000 and deferred gains on forward contracts to purchase yen were \$2,088,000. The Company is exposed to credit-related losses in the event of nonperformance by counter parties to these financial instruments, but it does not expect any counter parties to fail to meet their obligations.

All foreign currency exchange contracts held at March 31, 1995 involve the purchase or sale of Japanese Yen. The maturity of these foreign exchange contracts is consistent with the contractual or expected timing of the transactions being hedged, principally receipt of customer payments under long-term contracts and payments to vendors under subcontracts. These foreign exchange contracts mature as follows (in thousands):

Years to Maturity	To Purchase Yen		To Sell Yen	
	At Contract Rate	At Market Rate	At Contract Rate	At Market Rate
1	\$13,842	\$15,029	\$116,529	\$156,198
2 to 5	19,908	20,809	122,244	134,099
6 to 10			15,127	17,438
Thereafter			8,699	8,700
	\$33,750	\$35,838	\$262,599	\$316,435

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. Financing Arrangements (continued)

Debt

Long-term debt comprises:

	March 31,	
	1995	1994
	(In thousands)	
Japanese Export — Import Bank credit facility (weighted average interest rate of 5.0% and 3.125%, respectively)	\$34,040	\$21,249
Revolving credit and participation agreement (weighted average interest rate of 5.8% and 4.8%, respectively)		71,000
	<u>\$34,040</u>	<u>\$92,249</u>

On November 17, 1993, SS/L entered into a \$46,600,000 credit facility (“the Facility”) with a Japanese bank. The Facility is fully secured by a letter of credit arrangement with another bank for a fee. Borrowings are determined by formula and are made in accordance with a defined schedule through August 31, 1995 or until the Facility is fully disbursed. Principal is to be repaid in 22 semiannual installments through November 1, 2005 in accordance with an amortization schedule provided in the Facility. Interest is charged at the London Interbank Offer Rate less ¼% and is payable semiannually on May 1 and November 1.

SS/L has a \$250,000,000 revolving credit and participation agreement (“the Agreement”) with a group of banks, which provides for borrowings through December 23, 1997 at which time the Agreement expires. Interest is charged at either the higher of the lead bank’s prime rate and ½ of 1% above the Federal Funds rate, or ¼ of 1% above the London Interbank Offered Rate (LIBOR), or a combination of both at SS/L’s option. The LIBOR interest rate is subject to a reduction of ¼ of 1% on SS/L’s achievement of a certain financial covenant. The Company achieved this covenant during the year ended March 31, 1995. The Agreement contains customary covenants requiring SS/L to maintain specified net worth and debt to equity ratios, an interest coverage ratio and a current asset to debt ratio. In addition, the Agreement limits amounts that may be paid in dividends and advances to and from affiliates. The Company was in compliance with such covenants at March 31, 1995 and 1994. The Agreement further requires that the total advances and letters of credit outstanding under this Agreement and the Note Purchase Facility, discussed below, may not exceed \$250,000,000.

On September 30, 1994, SS/L entered into a \$140,000,000 note purchase facility agreement (the “Note Purchase Facility”) with an Italian bank. Borrowings are determined by formula and are made in accordance with a defined schedule through June 30, 1998, or until the Facility is fully disbursed. Principal is to be repaid on the earlier of twenty three months from the final acceptance date of certain satellite deliveries or April 30, 2000. Interest is charged at 3.76% and is payable semiannually from the date of the first advance. No advances were made during the year ended March 31, 1995.

The Company has other outstanding letters of credit of approximately \$1,679,000 at March 31, 1995.

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Income Taxes

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

	Year ended March 31,		
	1995	1994	1993
	(In thousands)		
— Current:			
Federal	\$ —	\$ 198	\$ —
State, local and foreign	—	198	372
	—	198	372
Deferred, principally Federal	11,946	10,260	6,116
Total	\$11,946	\$10,458	\$6,488

The provision for income taxes excludes a deferred tax benefit of \$1,107,000 related to SS/L's share of Globalstar, L.P. losses (See Note 6).

The income tax provision differs from the amount computed by applying the statutory federal income tax rate to income before income taxes for the following reasons:

	Year ended March 31,		
	1995	1994	1993
	(In thousands)		
Provision at statutory Federal income tax rate	\$ 6,719	\$ 4,832	\$3,088
State and local income taxes, net of Federal income tax benefit	873	644	246
Non-deductible goodwill amortization	2,360	2,360	2,293
Impact of increase in Federal rate on deferred tax liability		956	
Loss of ISTI	875	672	
Other	1,119	994	861
Total provision for income taxes	\$11,946	\$10,458	\$6,488

The provision for income taxes has been calculated using the liability method. The deferred tax liability on the accompanying balance sheet arises from the tax effect of the temporary differences between the carrying amounts of assets and liabilities for financial and income tax reporting purposes, and is principally related to use of the long-term contract method of accounting for tax purposes, the liability for other postretirement benefits and differences in tax and book bases of assets and liabilities acquired.

At March 31, 1995, the reported deferred tax liability is net of future tax benefits of \$16,212,000 arising from net operating loss carryforwards which expire beginning in 2007. Tax carryforward benefits will be used in the periods that net deferred tax liabilities mature.

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Income Taxes (continued)

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

	March 31,	
	1995	1994
	(In thousands)	
Deferred tax assets:		
Net operating loss carryforwards	\$16,212	\$11,072
Postretirement benefits other than pensions	13,313	13,771
Compensation and benefits	3,355	3,386
Other, net	1,449	2,193
	34,329	30,422
Deferred tax liabilities:		
Income recognition on long-term contracts	56,791	42,392
Property, plant and equipment	26,032	25,130
Pension costs	8,121	9,115
	90,944	76,637
Net deferred income tax liability	\$56,615	\$46,215

6. Investment in Affiliates

In March 1994, SS/L agreed to purchase for \$6,000,000, an 11% limited partnership interest in Loral Qualcomm Satellite Services, L.P. ("LQSS"). The investment was paid in installments of \$3,600,000 and \$2,400,000 during the years ended March 31, 1995 and 1994, respectively. LQSS's only asset is 18,000,000 general partnership interests in Globalstar, L.P. ("Globalstar"), representing a 38.3% and 50% interest at March 31, 1995 and 1994, respectively. Globalstar was formed to design, construct and operate a worldwide, low-earth orbit satellite-based digital telecommunications system. SS/L's investment at March 31, 1995 is net of its share of Globalstar's pre-tax losses of \$3,163,000.

In connection with the construction of the Globalstar system, Globalstar entered into a \$1.3 billion contract with SS/L to design, manufacture, test and launch its satellite constellation of 56 satellites (including 8 spares). Under the contract, SS/L has agreed to act as Globalstar's agent to obtain launch vehicles, arrange for launch of Globalstar satellites and obtain insurance to cover the replacement cost of satellites or launch vehicles lost in the event of a launch failure. SS/L has entered into subcontracts with certain of Globalstar's direct or indirect limited partners, some of whom are shareholders of SS/L. Sales to Globalstar for the years ended March 31, 1995 and 1994 were \$97,258,000 and \$9,522,000, respectively.

In April 1994, the Company purchased common stock representing a five percent interest in Orion Network Systems, Inc. for \$5,000,000. The investment is accounted for using the cost method.

7. Related Party Transactions

SS/L, its shareholders, and Loral have entered into a Stockholders' Agreement ("the Agreement"). The Agreement provides for management fees to be paid to Loral, ranging from 0.5% to 1% of sales as defined in the Agreement, depending upon SS/L's operating performance. Such management fees were \$3,169,000, \$2,981,000 and \$2,576,000 for the years ended March 31, 1995, 1994 and 1993, respectively.

The Agreement also requires SS/L to pay Loral an annual fee for overhead reimbursement, not to exceed 1% of SS/L's adjusted sales (as defined) for each fiscal year. This fee amounted to \$3,287,000, \$3,512,000 and \$2,587,000 for the years ended March 31, 1995, 1994 and 1993, respectively.

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Related Party Transactions (continued)

SS/L was billed for certain operational, executive, administrative, financial, legal and other services provided by LAC and other Loral divisions, and SS/L charged LAC certain overhead costs. Net costs billed to SS/L by LAC and other Loral divisions were \$8,518,000, \$5,934,000 and \$7,861,000 for the years ended March 31, 1995, 1994 and 1993, respectively.

— In connection with contract performance, SS/L provides services to and acquires services from Loral and its affiliated companies. A summary of such transactions and balances is as follows:

	Year ended March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(In thousands)		
Revenue from services sold	\$ 1,103	\$ 672	\$ 1,800
Cost of purchased services	27,631	16,441	12,830
Balances at year end:			
Receivable	\$ 724	\$ 2,875	\$ 4,615
Payable	<u>7,272</u>	<u>10,272</u>	<u>6,832</u>
Due to Loral Affiliates, net	<u>\$ 6,548</u>	<u>\$ 7,397</u>	<u>\$ 2,217</u>

SS/L's revenues, purchases, and balances from its other corporate shareholders are as follows:

	Year ended March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(In thousands)		
Revenues from contracts	\$ 3,073	\$ 1,420	\$11,228
Purchases	85,489	63,255	34,681
Balances at year end:			
Receivable	840	571	366
Payable	19,521	8,541	772

Loral grants certain key employees of SS/L options to purchase shares of Loral common stock. At March 31, 1995, 1994 and 1993, options to purchase 222,894, 193,998 and 125,374 shares of Loral common stock were outstanding, respectively, (adjusted for a two-for-one stock split in fiscal year 1994). SS/L has agreed to pay Loral any difference between the market value of Loral stock at the time of exercise and the option price. For the years ended March 31, 1995 and 1994, \$726,000 and \$533,000, respectively, of compensation expense was accrued for the excess of market value of Loral stock over exercise prices for options exercisable as of March 31, 1995 and 1994, respectively. No compensation expense was required to be accrued during 1993.

8. Commitments and Contingencies

At March 31, 1995, the Company was party to various noncancellable real estate leases with minimum aggregate rental commitments payable as follows (in thousands):

1996	\$ 3,781
1997	2,788
1998	1,299
1999	34
Thereafter	<u>2</u>
	<u>\$ 7,904</u>

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. Commitments and Contingencies (Continued)

Leases covering major items of real estate contain renewal and/or purchase options which may be exercised by the Company. Rent expense was \$4,805,000, \$4,731,000 and \$4,712,000 for the years ended March 31, 1995, 1994 and 1993, respectively.

Due to the long lead times required to produce purchased parts, the Company has entered into various commitments with suppliers. These commitments aggregated \$645,877,000 at March 31, 1995.

The U.S. government asserted a claim against LAH for a portion of pension assets retained by the seller at the time SS/L and other Ford Aerospace entities were acquired. The claim was settled during 1993, at no cost to SS/L. Reserves of \$3,500,000 previously provided for this claim have been recognized as other income in the 1993 statement of operations.

SS/L is party to various litigation arising in the normal course of its operations. However, in the opinion of management, the ultimate liability for these matters, if any, will not have a material adverse effect on the financial position of SS/L.

Under a shareholders agreement among SS/L's equity investors, a change of control of Loral Corporation within the meaning of such agreement would provide each of SS/L's Alliance Partners with the right to (i) put their equity interests back to SS/L at fair market value, or (ii) purchase a pro rata share of Loral's equity interest in SS/L for fair market value (subject to receiving certain authorizations including U.S. government approval). In addition, an Alliance Partner which dissents against certain actions of the Board of Directors approved by Loral and at least two other Alliance Partners, including material changes in SS/L's strategic plan and related lines of business, a merger, sale of substantially all assets of SS/L, or sale of stock which increases outstanding shares by more than 10%, may offer its interests to the other Alliance Partners at 90% of fair market value; if not purchased by the Alliance Partners, SS/L would be required to repurchase such shares at that price. In the event any of SS/L's Alliance Partners put their interests back to SS/L, Loral will acquire such interests.

9. Pensions and Other Employee Benefits

Pensions

SS/L maintains a contributory pension plan covering substantially all employees. Benefits are based on members' salaries and years of service. This plan is administered under the direction of LAH. 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. Contributions for the year ended March 31, 1995 and 1994, respectively, were \$58,000 and \$3,993,000. Due to the funded status of the plan, no contributions were made for the year ended March 31, 1993. Plan assets are invested primarily in U.S. government and agency obligations and listed stocks and bonds.

Net pension costs include the following components:

	Year ended March 31,		
	1995	1994	1993
	(In thousands)		
Service cost – benefits earned during the period	\$ 3,950	\$ 2,897	\$ 2,948
Interest cost on projected benefit obligation	9,025	8,199	7,331
Actual loss (return) on plan assets	372	(13,184)	(6,362)
Net amortization and deferral	(10,672)	3,610	(2,971)
Net pension costs	\$ 2,675	\$ 1,522	\$ 946

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Pensions and Other Employee Benefits (continued)

The following table sets forth the plan's funded status:

	March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(In thousands)		
Actuarial present value of benefit obligations:			
— Vested benefits	\$98,540	\$92,745	\$74,708
Accumulated benefits	\$99,279	\$93,412	\$74,895
Effect of projected future salary increases	13,908	15,243	13,134
Projected benefits	113,187	108,655	88,029
Plan assets at fair value	112,837	115,030	102,267
Plan assets (less than) in excess of projected benefit obligation	(350)	6,375	14,238
Unrecognized net prior service cost	(40)	(900)	
Unrecognized net loss	21,760	18,513	7,279
Prepaid pension cost included in other assets in the accompanying balance sheet	\$21,370	\$23,988	\$21,517
The principal actuarial assumptions are as follows:			
Discount rate	8.50%	7.75%	9.00%
Rate of increase in compensation levels	4.75%	4.75%	6.00%
Expected long-term rate of return on plan assets	9.50%	9.50%	9.50%

Postretirement Health Care and Life Insurance Cost

In addition to providing pension benefits, SS/L provides certain health care and life insurance benefits for retired employees and dependents. 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, SS/L 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 \$32,811,000 pre-tax, \$20,670,000 after-tax, was recorded as the cumulative effect of the accounting change as of that date.

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

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Pensions and Other Employee Benefits (continued)

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

	Year ended March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(In thousands)		
Service cost - benefits earned during the period	\$ 386	\$ 364	\$1,192
Interest cost on accumulated postretirement benefit obligation	1,445	1,682	3,016
Net amortization and deferrals	<u>(1,481)</u>	<u>(1,311)</u>	<u> </u>
Total postretirement health care and life insurance costs.....	<u>\$ 350</u>	<u>\$ 735</u>	<u>\$4,208</u>

The following table reconciles the amounts recognized in the balance sheet:

	March 31,		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
	(In thousands)		
Accumulated postretirement benefit obligation:			
Retirees	\$10,562	\$13,510	\$ 7,038
Fully eligible plan participants.....	2,805	3,181	5,929
Other active plan participants	<u>4,275</u>	<u>5,915</u>	<u>6,185</u>
Total accumulated postretirement benefit obligation	17,642	22,606	19,152
Fair value of assets	<u>(1,348)</u>	<u>(997)</u>	<u>(997)</u>
Unfunded accumulated postretirement benefit obligation	16,294	21,609	18,155
Unrecognized prior service gain related to plan amendments	14,968	16,240	17,528
Unrecognized net gain (loss)	<u>2,738</u>	<u>(2,699)</u>	<u> </u>
Accrued postretirement health care and life insurance cost	<u>\$34,000</u>	<u>\$35,150</u>	<u>\$35,683</u>

The principal assumptions used in determining the pension benefit obligation are as follows:

Discount rate	8.50%	7.75%	9.00%
Rate of increase in compensation levels	4.75	4.75	6.00
Present healthcare cost trend rate	11.73	12.36	13.00
Ultimate trend rate by the year 2003	6.00	6.00	6.00

Changing the assumed health care cost trend rate by 1% in each year would change the accumulated postretirement benefit obligation by approximately \$1,515,000 and the aggregate service and interest cost components for 1995 by approximately \$213,000.

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 in the financial statements on an accrual basis. The adoption of SFAS 112 did not have a material impact to the financial position or results of operations of the Company.

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Pensions and Other Employee Benefits (continued)

Employee Savings Plan

SS/L employees participate in the Loral Aerospace Savings Plan ("the Plan"). Under the Plan, SS/L matches 60% of participating employees' contributions, up to 6% of base pay. The Company's matching contributions made in Loral common stock were \$2,976,000, \$2,782,000 and \$2,399,000 for the years ended March 31, 1995, 1994 and 1993, respectively.

10. International Space Technology, Inc. Common Stock Transactions

In September 1993 and March 1994, International Space Technology, Inc. ("ISTI"), a partially owned, corporate joint venture, entered into agreements to sell, in installments, a 22.8% equity interest in ISTI to two unaffiliated entities. Under the first installment, ISTI sold 267.85 common shares for \$2.9 million in 1994, representing a 17.6% equity interest in ISTI. On November 8, 1994, in conjunction with the stock sales agreements, ISTI issued an additional 28.95 common shares to a minority shareholder, increasing the minority interest in ISTI by 1.6% to 19.2%. Accordingly, 17.6% of the losses of ISTI incurred subsequent to the sale and prior to November 8, 1994, and 19.2% of such incurred losses after November 7, 1994, have been allocated to the minority interest. Additional sales of shares under the agreements are contingent upon completion of certain product qualifications by SS/L.

11. Sale of Common Stock

On November 10, 1992, a European entity purchased a 12¼% equity interest in SS/L representing 490 shares of common stock for \$57,167,000, bringing the total number of European investors in SS/L to four. To maintain its proportionate interest in SS/L, LAC purchased 510 shares of SS/L common stock for \$59.5 million consisting of \$9.5 million in cash and the exercise of a warrant through the exchange of a \$50 million subordinated promissory note.

SPACE SYSTEMS/LORAL, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	<u>December 31,</u> <u>1995</u>	<u>March 31,</u> <u>1995</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$101,211	\$ 52,222
Contracts in process, net	230,777	203,406
Inventories	34,556	9,853
Deposits and other current assets	<u>6,250</u>	<u>20,129</u>
Total current assets	372,794	285,610
Property, plant and equipment	260,773	247,851
Less, accumulated depreciation and amortization	<u>105,770</u>	<u>90,530</u>
	155,003	157,321
Cost in excess of net assets acquired, less amortization	234,348	239,406
Long-term receivables	64,702	52,900
Investment in affiliates	6,284	7,837
Prepaid pension cost and other assets	<u>21,801</u>	<u>23,401</u>
	<u>\$854,932</u>	<u>\$766,475</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 87,086	\$ 63,344
Accrued payroll	20,452	17,812
Customer advances	138,255	115,950
Deferred income taxes	62,712	50,280
Other current liabilities	<u>5,854</u>	<u>6,947</u>
Total current liabilities	314,359	254,333
Long-term debt	54,457	34,040
Deferred income taxes	4,990	6,335
Postretirement and other liabilities	34,001	34,000
Minority interest in ISTI	2,151	2,266
Shareholders' equity:		
Preferred stock, \$.10 par value; 100,000 authorized and unissued shares	—	—
Common stock, \$.10 par value; authorized 100,000 shares, 4,000 shares issued and outstanding	466,668	466,668
Accumulated deficit	<u>(21,694)</u>	<u>(31,167)</u>
Total shareholders' equity	<u>444,974</u>	<u>435,501</u>
	<u>\$854,932</u>	<u>\$766,475</u>

See notes to condensed consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND ACCUMULATED DEFICIT
(In thousands)
(Unaudited)

	Nine months ended December 31,	
	<u>1995</u>	<u>1994</u>
Revenues from contracts	\$768,121	\$450,792
Contract costs	<u>742,390</u>	<u>429,267</u>
Gross profit	25,731	21,525
Amortization of cost in excess of net assets acquired	5,058	5,058
Management fee	<u>3,841</u>	<u>2,255</u>
Operating income	16,832	14,212
Interest income	7,605	2,719
Interest expense	<u>2,325</u>	<u>2,444</u>
Income before income taxes, minority interest and equity in net loss of affiliate	22,112	14,487
Provision for income taxes	<u>11,745</u>	<u>9,162</u>
Income before minority interest and equity in net loss of affiliate	10,367	5,325
Minority interest in losses of ISTI	115	318
Equity in net loss of affiliate	<u>(1,009)</u>	<u>(1,905)</u>
Net income	9,473	3,738
Accumulated deficit, beginning of period	<u>(31,167)</u>	<u>(36,721)</u>
Accumulated deficit, end of period	<u><u>\$ (21,694)</u></u>	<u><u>\$ (32,983)</u></u>

See notes to condensed consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine months ended December 31,	
	<u>1995</u>	<u>1994</u>
Cash flows from operating activities:		
Net income	\$ 9,473	\$ 3,738
Depreciation and amortization	22,376	22,040
Deferred income taxes	11,631	9,081
Minority interest in losses of ISTI	(115)	(318)
Equity in net loss of affiliate	1,009	1,905
Changes in operating assets and liabilities:		
Contracts in process, including long-term receivables	(39,173)	45,371
Inventories	(24,703)	(3,389)
Deposits and other current assets	13,879	742
Prepaid pension cost and other assets	1,600	(18,796)
Accounts payable and other current liabilities	25,289	3,000
Customer advances	22,305	56,954
Postretirement and other liabilities	<u>1</u>	<u>(126)</u>
Net cash provided by operating activities	<u>43,572</u>	<u>120,202</u>
Investing activities:		
Capital expenditures, net	(15,000)	(13,740)
Investment in LQSS		(1,800)
Investment in Orion		<u>(5,000)</u>
Net cash used in investing activities	<u>(15,000)</u>	<u>(20,540)</u>
Financing activities:		
Proceeds from borrowings	31,145	151,791
Repayment of debt	<u>(10,728)</u>	<u>(210,000)</u>
Net cash provided by (used in) financing activities	<u>20,417</u>	<u>(58,209)</u>
Net increase in cash and cash equivalents	48,989	41,453
Cash and cash equivalents, beginning of period	<u>52,222</u>	<u>26,578</u>
Cash and cash equivalents, end of period	<u>\$101,211</u>	<u>\$ 68,031</u>

See notes to condensed consolidated financial statements.

SPACE SYSTEMS/LORAL, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. 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 annual 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 annual financial statements and notes thereto included herein.

2. Contracts in Process:

	<u>December 31,</u> <u>1995</u>	<u>March 31,</u> <u>1995</u>
(In thousands)		
U.S. government contracts:		
Amounts billed	\$ 7,388	\$ 8,319
Unbilled contract receivables	<u>14,610</u>	<u>15,562</u>
	<u>21,998</u>	<u>23,881</u>
 Commercial contracts:		
Amounts billed	57,731	35,217
Unbilled contract receivables	<u>151,048</u>	<u>144,308</u>
	<u>208,779</u>	<u>179,525</u>
	<u>\$230,777</u>	<u>\$203,406</u>

Unbilled amounts include recoverable costs and accrued profit on progress completed which has not been billed. Such amounts are billed upon shipment of the product, achievement of contractual milestones, or completion of the contract and are reclassified to billed receivables.

Payment terms and conditions vary between contracts, however, SS/L generally requires for commercial contracts, advance deposits equal to varying percentages of the total contract amount.

Independent research and development costs for the nine months ended December 31, 1995 and 1994 were \$8,156,000 and \$5,785,000, respectively.

3. Investment in Affiliates

SS/L, in connection with the indirect investment in Globalstar, has agreed to guarantee approximately \$11,700,000 of Globalstar's obligations under a \$250,000,000 credit agreement. In return for providing such guarantee, SS/L will receive its proportionate share of warrants to purchase 4,185,318 shares of Globalstar Telecommunications Limited common stock at \$26.50 per share allocated to the guarantors.