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L-3 COMMUNICATIONS CORPORATION

SUPPLEMENT NO. 2 TO PROSPECTUS DATED JANUARY 20, 1998

THE DATE OF THIS SUPPLEMENT NO. 2 IS MAY 22, 1998.

ON MAY 15, 1998, L-3 COMMUNICATIONS CORPORATION FILED THE ATTACHED AMENDMENT TO ANNUAL REPORT ON FORM 10-K/A FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

FORM 10-K/A

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1997
or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number

L-3 COMMUNICATIONS CORPORATION

(Exact name of registrant as specified in its charter)

DELAWARE	13-3937436
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
600 THIRD AVENUE NEW YORK, NEW YORK (Address of principal executive offices)	10016 (Zip Code)

(212) 697-1111
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None.

Securities registered pursuant to section 12(g) of the Act:
None.

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

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

As of December 31, 1997, L-3 Communications Corporation (the "Company" or "L-3 Communications") had 100 shares of common stock outstanding, which were held by its parent, L-3 Communications Holdings, Inc. ("Holdings").

DOCUMENTS INCORPORATED BY REFERENCE
None.

PART I

As used herein, unless the context requires otherwise: (i) "Holdings" means L-3 Communications Holdings, Inc., (ii) "L-3" means Holdings, its wholly-owned operating subsidiary, L-3 Communications Corporation, their predecessors, and the businesses acquired in the 1998 Acquisitions (as defined), (iii) "L-3 Communications" or the "Company" means L-3 Communications Corporation, (iv) "L-3 Acquisition" means the purchase of the Company from Lockheed Martin Corporation in April 1997 described under "--History", (v) "1998 Acquisitions" means the recently completed acquisition of STS (as defined), ILEX (as defined) and Ocean Systems (as defined) described under "--Recent Developments", (vi) "Notes Offering" means $150 million aggregate principal amount of Senior Subordinated Notes due 2008 to be offered by L-3 Communications, (vii) "Common Stock Offering" means an initial public offering of common stock by Holdings which is made concurrently with the Notes Offering, (viii) "Offerings" means the Notes Offering and the contribution by Holdings of the proceeds of the Common Stock Offering and (ix) unless otherwise indicated, "pro forma" financial data reflect the L-3 Acquisition, the 1998 Acquisitions and the Offerings as if such transactions had occurred in the beginning of the period indicated.

ITEM 1. BUSINESS.

COMPANY OVERVIEW

L-3 is a leading merchant supplier of sophisticated secure communication systems and specialized communication products including secure, high data rate communication systems, microwave components, avionics and ocean systems, and telemetry, instrumentation and space products. These systems and products are critical elements of virtually all major communication, command and control, intelligence gathering and space systems. The Company's systems and specialized products are used to connect a variety of airborne, space, ground-and sea-based communication systems and are incorporated into the transmission, processing, recording, monitoring and dissemination functions of these communication systems. The Company's customers include the U.S. Department of Defense (the "DoD"), selected U.S. government (the "Government") intelligence agencies, major aerospace/defense prime contractors, foreign governments and commercial customers. In 1997, L-3 had pro forma sales of $894.0 million and pro forma EBITDA (as defined) of $95.1 million. The Company's pro forma funded backlog as of December 31, 1997 was $638.1 million. These results reflect internal growth as well as the execution of the Company's strategy of acquiring businesses that complement or extend L-3's product lines.

The Company's business areas enjoy proprietary technologies and capabilities and have leading positions in their respective primary markets. Management has organized the Company's operations into two primary business areas: Secure Communication Systems and Specialized Communication Products. In 1997, the Secure Communication Systems and Specialized Communication Products business areas generated approximately $456.0 million and $438.0 million of pro forma sales, respectively, and $52.3 million and $42.8 million of pro forma EBITDA, respectively. In addition, the Company is seeking to expand its products and technologies in commercial markets. See " -- Emerging Commercial Products" below.

SECURE COMMUNICATION SYSTEMS. L-3 is the established leader in secure, high data rate communications in support of military and other national agency reconnaissance and surveillance applications. The Company's Secure Communication Systems operations are located in Salt Lake City, Utah, Camden, New Jersey, and Shrewsbury, New Jersey. These operations are predominantly cost plus, sole source contractors supporting long-term programs for the U.S. Armed Forces and classified customers. The Company's major secure communication programs and systems include: secure data links for airborne, satellite, ground-and sea-based information collection and transmission; strategic and tactical signal intelligence systems that detect, collect, identify, analyze and disseminate information and related support contracts for military and national agency intelligence efforts; as well as secure telephone and network equipment. The Company believes that it has developed virtually every high bandwidth data link used by the military for surveillance and reconnaissance in operation today. L-3 is also a leading supplier of communication software support services to military and related government intelligence markets. In addition to these core Government programs, L-3 is leveraging its technology base by expanding into related commercial communication equipment markets, including applying its high data rate communications and archiving technology to the medical image archiving market and its wireless communication expertise to develop local wireless loop telecommunications equipment.

SPECIALIZED COMMUNICATION PRODUCTS. This business area includes (i) Microwave Components, (ii) Avionics and Ocean Systems and (iii) Telemetry, Instrumentation and Space Products operations of the Company.

Microwave Components. L-3 is the preeminent worldwide supplier of commercial off-the-shelf, high performance microwave components and frequency monitoring equipment. L-3's microwave products are sold under the industry-recognized Narda brand name through a standard catalog to wireless, industrial and military communication markets. L-3 also provides state-of-the-art communication components including channel amplifiers and frequency filters for the commercial communication satellite market. Approximately 76% of Microwave Components sales is made to commercial customers, including Loral Space & Communications, Ltd., Motorola, Inc., Lucent Technologies Inc., AT&T Corp. and Lockheed Martin Corporation ("Lockheed Martin").

Avionics and Ocean Systems. Avionics and Ocean Systems include the Company's Aviation Recorders, Display Systems, Antenna Systems and Acoustic Undersea Warfare Systems operations. L-3 is the world's leading manufacturer of commercial cockpit voice and flight data recorders ("black boxes"). These recorders are sold under the Fairchild brand name both on an original equipment manufacturer ("OEM") basis to aircraft manufacturers as well as directly to the world's major airlines for their existing fleets of aircraft. L-3 aviation recorders are also installed on military transport aircraft throughout the world. L-3 provides military and high-end commercial displays for use on a number of DoD programs including the F-14, V-22, F-117 and E-2C. Further, L-3 manufactures high performance surveillance antennas and related equipment for U.S. Air Force, U.S. Army and U.S. Navy aircraft including the F-15, F-16, AWACS, E-2C and B-2, as well as the U.K.'s maritime patrol aircraft. L-3 is also one of the world's leading product suppliers of acoustic undersea warfare systems and airborne dipping sonar systems to the U.S. and over 20 foreign navies.

Telemetry, Instrumentation and Space Products. The Company's Telemetry, Instrumentation and Space Products operations develop and manufacture commercial off-the-shelf, real-time data collection and transmission products and components for missile, aircraft and space-based electronic systems. These products are used to gather flight parameter data and other critical information and transmit it from air or space to the ground. Telemetry products are also used for range safety and training applications to simulate battlefield situations. L-3 is also a leading global satellite communications systems and services provider offering systems and services used in satellite transmission of voice, video and data.

EMERGING COMMERCIAL PRODUCTS. Building upon its core technical expertise and capabilities, the Company is seeking to expand into several closely aligned commercial business areas and applications. Emerging Commercial Products currently include the following three niche markets: (i) medical archiving and simulation systems; (ii) local wireless loop telecommunications equipment; and (iii) airport security equipment. These commercial products were developed based on technology used in the Company's military businesses with relatively small incremental financial investments. The Company is applying its technical capabilities in high data rate communications and archiving technology developed in its Secure Communication Systems business area to the medical image archiving market jointly with the General Electric Company's ("GE") medical systems business ("GE Medical Systems"). Based on secure, high data rate communications technology also developed in its Secure Communication Systems business area, the Company has developed local wireless loop telecommunications equipment that is primarily designed for emerging market countries and rural areas where voice and data communication infrastructure is inadequate or non-existent. L-3 has completed the development phase for the local wireless loop telecommunications equipment and made its initial shipment in January 1998. In addition, the Federal Aviation Administration (the "FAA") has awarded the Company a development contract for next generation airport security equipment for explosive detection. L-3 has shipped two prototype test units and FAA certification testing commenced in the first quarter of 1998. To date, revenues generated from L-3's Emerging Commercial Products have not been, in the aggregate, material to the Company.

The Company's systems and products are summarized in the following tables:

SECURE COMMUNICATION SYSTEMS (1997 PRO FORMA SALES: $456.0 MILLION)

SYSTEMS	SELECTED APPLICATIONS	SELECTED PLATFORMS/END USES
SECURE HIGH DATA RATE COMMUNICATIONS		
o Wideband data links	o High performance, secure communication links for interoperable tactical communication and reconnaissance	o Used on aircraft and naval ships and unmanned aerial vehicles with military and commercial satellites
SATELLITE COMMUNICATION TERMINALS		
o Ground-based satellite communication terminals	o Interoperable, transportable ground terminals for remote data links to distant segments via commercial or military satellites	o Provide remote personnel with communication links to distant forces
SPACE COMMUNICATION AND SATELLITE CONTROL		
o Satellite communication and tracking systems	o On-board satellite external communications, video systems, solid state recorders and ground support equipment	o International Space Station; Earth Observing Satellite; Landsat-7; Space Shuttle; and National Oceanic and Atmospheric Administration weather satellites
o Satellite command and control sustainment and support	o Software integration, test and maintenance support for Air Force satellite control network; engineering support for satellite launch systems	o Air Force satellite control network and Titan IV launch system
MILITARY COMMUNICATIONS		
o Shipboard communication systems	o Shipboard and ship-to-ship communications	o Shipboard voice communications systems for Aegis cruisers and destroyers and fully automated Integrated Radio Room (IRR) for ship-to-ship communications on Trident submarines
o Digital battlefield communications	o Communications on the move for tactical battlefield	o Communication systems for U.S. Army C(2)V
o Communication software support services	o Value added, critical software support for C(3)I systems	o ASAS, JSTARS and GUARDRAIL
INFORMATION SECURITY SYSTEMS		
o Secure Telephone Unit (STU III)/Secure Terminal Equipment (STE)	o Secure and non-secure voice, data and video communication utilizing ISDN and ATM commercial network technologies	o Office and battlefield secure and non-secure communication for armed services, intelligence and security agencies
o Local management device/key processor (LMD/KP)	o Provides electronic key material accounting, system management and audit support functions for secure data communication	o User authorization and recognition and message encryption for secure communication
o Information processing systems	o Custom designed strategic and tactical signal intelligence systems that detect, collect, identify, analyze and disseminate information and related support contracts	o Classified military and national agency intelligence efforts

SPECIALIZED COMMUNICATION PRODUCTS (1997 PRO FORMA SALES: $438.0 MILLION)

PRODUCTS	SELECTED APPLICATIONS	SELECTED PLATFORMS/END USES
MICROWAVE COMPONENTS		
o Passive components, mechanical switches and wireless assemblies	o Radio transmission, switching and conditioning; antenna and base station testing and monitoring	o Broad-band and narrow-band commercial applications (PCS, cellular, SMR, and paging infrastructure) sold under the Narda brand name; and broad-band military applications
o Safety products	o Radio frequency (RF) monitoring and measurement	o Monitor cellular base station and industrial RF emissions frequency monitoring
o Semiconductors (diodes, capacitors)	o Radio frequency switches, limiters, voltage control, oscillators, harmonic generators	o Various industrial and military end uses, including commercial satellites, avionics and specialty communication products
o Satellite and wireless components (channel amplifiers, transceivers, converters, filters and multiplexers)	o Satellite transponder control, channel and frequency separation	o China Sat, PanAmSat, Telstar, Sirius, Tempo, Tiros, Milstar, GPS and LandSat
AVIONICS AND OCEAN SYSTEMS		
Aviation Recorders		
o Solid state cockpit voice and flight data recorders	o Voice recorders continuously record most recent 30-120 minutes of voice and sounds from cockpit and aircraft inter-communications. Flight data recorders record the last 25 hours of flight parameters	o Installed on business and commercial aircraft and certain military transport aircraft; sold to both aircraft OEMs and airlines under the Fairchild brand name
Antenna Systems		
o Ultra-wide frequency and advanced radar antenna systems and rotary joints	o Surveillance; radar detection	o F-15, F-16, F-18, E-2C, P-3, C-130, B-2, AWACS, Apache, Cobra, Mirage (France), Maritime Patrol (U.K.) and Tornado (U.K.)
Display Systems		
o Cockpit and mission display systems	o High performance, ruggedized flat panel and cathode ray tube displays	o E-2C, V-22, F-14, F-117, E-6B, C-130, AWACS and JSTARS
Ocean Systems		
o Airborne dipping sonar systems	o Submarine detection and localization	o SH-60, SH-2/3, AB-212, EH-101 and Lynx Helicopters
o Submarine and surface ship towed arrays	o Submarine and surface ship detection and localization	o SSN, SSBN, DDG-963 and FFG-7
o Torpedo defense systems	o Torpedo detection and jamming	o SSN, SSBN and DDG-963
o Mine countermeasure systems	o Coastal and route survey	o MCDV (Canada)
TELEMETRY, INSTRUMENTATION AND SPACE PRODUCTS		
Airborne, Ground and Space Telemetry		
o Aircraft, missile and satellite telemetry systems	o Real time data acquisition, measurement, processing, simulation, distribution, display and storage for flight testing	o JSF, F-15, F-18, F-22, Comanche, Nimrod (U.K.), Tactical Hellfire, Titan, EELV, A2100 and ATHENA
o Training range telemetry systems	o Battlefield simulation	o Combat simulation
Space Products		
o Global satellite communications systems supplier	o Satellite transmission of voice, video and data	o Rural telephony or private networks, direct to home uplinks, satellite news gathering and wideband applications

INDUSTRY OVERVIEW

The defense industry has recently undergone significant changes precipitated by ongoing federal budget pressures and new roles and missions to reflect changing strategic and tactical threats. Since the mid-1980's, the overall U.S. defense budget has declined in real dollars. In response, the DoD has focused its resources on enhancing its military readiness, joint operations and digital command and control communications by incorporating advanced electronics to improve the performance, reduce operating cost and extend the life expectancy of its existing and future platforms. The emphasis on system interoperability, force multipliers and providing battlefield commanders with real-time data is increasing the electronics content of nearly all of the major military procurement and research programs. As a result, the DoD's budget for communications and defense electronics is expected to grow. According to Federal Sources, an independent private consulting group, the defense budget for command, control, communications and intelligence ("C(3)I") is expected to increase from $31.0 billion in the fiscal year ended September 30, 1997 to $42.0 billion in the fiscal year ended September 30, 2002, a compound annual growth rate of 6.3%.

The industry has also undergone dramatic consolidation resulting in the emergence of three dominant prime system contractors (The Boeing Company, Lockheed Martin and Raytheon Company ("Raytheon")). One outgrowth of this consolidation among the remaining major prime contractors is their desire to limit purchases of products and sub-systems from one another. However, there are numerous essential products, components and systems that are not economical for the major prime contractors to design, develop or manufacture for their own internal use which creates opportunities for merchant suppliers such as L-3. As the prime contractors continue to evaluate their core competencies and competitive position, focusing their resources on larger programs and platforms, the Company expects the prime contractors to continue to exit non-strategic business areas and procure these needed elements on more favorable terms from independent, commercially oriented merchant suppliers. Recent examples of this trend include divestitures of certain non-core businesses by AlliedSignal Inc. ("AlliedSignal"), Ceridian Corporation ("Ceridian"), Lockheed Martin and Raytheon.

The prime contractors' focus on cost control is also driving increased use of commercial off-the-shelf products for upgrades of existing systems and in new systems. The Company believes the prime contractors will continue to be under pressure to reduce their costs and will increasingly seek to focus their resources and capabilities on major systems, turning to commercially oriented merchant suppliers to produce sub-systems, components and products. Going forward, successful merchant suppliers will use their resources to complement and support, rather than compete with the prime contractors. L-3 anticipates the relationship between the major prime contractors and their primary suppliers will, as in the automotive and commercial aircraft industry, develop into critical partnerships encompassing increasingly greater outsourcing of non-core products and systems by the prime contractors to their key merchant suppliers and increasing supplier participation in the development of future programs. Early involvement in the upgrading of existing systems and the design and engineering of new systems incorporating these outsourced products will provide merchant suppliers, including the Company, with a competitive advantage in securing new business and provide the prime contractors with significant cost reduction opportunities through coordination of the design, development and manufacturing processes.

RECENT DEVELOPMENTS

Since the formation of the Company in April 1997, the Company has actively pursued its acquisition strategy. The Company recently purchased the assets and liabilities of three businesses described below which collectively comprise the "1998 Acquisitions". The combined purchase prices for these acquisitions was $146.4 million of cash, subject to certain post-closing adjustments, and in one case certain additional consideration based on post-closing performance. The Company has financed these acquisitions through the use of its existing cash balances as well as through borrowings under the $375.0 million Senior Credit Facilities (as defined herein). These three businesses complement and extend L-3's product offerings.

Ocean Systems

On March 30, 1998, L-3 Communications purchased the assets of the Ocean Systems business ("Ocean Systems") of AlliedSignal for $67.5 million in cash. In 1997, Ocean Systems had sales of

$73.0 million. Ocean Systems is one of the world's leading products suppliers of acoustic undersea warfare systems, having designed, manufactured and supported a broad range of compact, lightweight, high performance acoustic systems for navies around the world for over 40 years. Ocean Systems is the leading products supplier of airborne dipping sonar systems in the world with substantial market share of the sector and systems in service with the U.S. and 20 foreign navies. Ocean Systems also produces several sea systems products including towed array sonar, integrated side-looking sonar, acoustic jammers, mine detection and torpedo defense systems and supplies commercial navigation and hydrographic survey systems worldwide. Ocean Systems is further supported by ELAC Nautik GmbH ("ELAC") located in Kiel, Germany. ELAC manufactures a broad range of naval defense products including submarine, torpedo and navigation sonars as well as survey and navigation systems for the commercial nautical products industry.

ILEX Systems

On March 4, 1998, L-3 Communications purchased the assets of ILEX Systems ("ILEX") for $51.9 million in cash plus additional consideration based on post-closing performance which could include up to 540,000 shares of Common Stock over the next three years. In 1997, ILEX had sales of $63.5 million. ILEX is a leading supplier of communication software support services to military and related government intelligence markets. ILEX also provides environmental consulting, software and systems engineering services and complementary products to several commercial markets.

Satellite Transmission Systems

On February 5, 1998, L-3 Communications purchased the assets of Satellite Transmission Systems division ("STS") of California Microwave, Inc. for $27.0 million, subject to adjustment based on closing net assets. For the fiscal year ended June 30, 1997, STS had sales of $68.0 million. STS is a leading global satellite communications systems and services provider. Its customers include foreign post, telephone and telegraph administrations, domestic and international prime communications infrastructure contractors, telecommunication and satellite service providers, broadcasters and media-related companies, government agencies and large corporations.

The Company considers and executes strategic acquisitions on an ongoing basis and may be evaluating acquisitions or engaged in acquisition negotiations at any given time. As of the date hereof, the Company has completed, has reached agreement on or is in discussions regarding certain acquisitions, in addition to the 1998 Acquisitions, that are either individually or in the aggregate not material to the financial condition or results of operations of the Company.

HISTORY

Holdings and L-3 Communications were formed in April 1997 by Mr. Frank C. Lanza, the former President and Chief Operating Officer of Loral Corporation ("Loral"), Mr. Robert V. LaPenta, the former Senior Vice President and Controller of Loral (collectively, "Senior Management"), Lehman Brothers Capital Partners III, L.P. and its affiliates (the "Lehman Partnership") and Lockheed Martin to acquire (the "L-3 Acquisition") substantially all of the assets and certain liabilities of (i) nine business units previously purchased by Lockheed Martin as part of its acquisition of Loral in April 1996 (the "Loral Acquired Businesses") and (ii) one business unit, Communication Systems -- East, purchased by Lockheed Martin as part of its acquisition of the aerospace business of GE in April 1993 (collectively, the "Businesses"). L-3 Communications is a wholly-owned subsidiary of Holdings. At December 31, 1997, Messrs. Lanza and LaPenta and certain other members of management collectively own 15.9%; the Lehman Partnership owns 50.1%; and Lockheed Martin owns 34.0% of the outstanding capital stock of Holdings.

The Company's executive offices are located at 600 Third Avenue, New York, New York, 10016, and the telephone number at that address is 212-697-1111.

PRODUCTS AND SERVICES

SECURE COMMUNICATION SYSTEMS

L-3 is a leader in communication systems for high performance intelligence collection, imagery processing and ground, air, sea and satellite communications for the DoD and other government agencies. The Salt Lake City operation provides secure, high data rate, real-time communication systems for surveillance, reconnaissance and other intelligence collection systems. The Camden operation designs, develops, produces and integrates communication systems and support equipment for space, ground and naval applications. The Shrewsbury operation provides communication software support services to military and related government intelligence markets. Product lines of the Secure Communication Systems business include high data rate communications links, satellite communications ("SATCOM") terminals, Navy vessel communication systems, space communications and satellite control systems, signal intelligence information processing systems, information security systems, tactical battlefield sensor systems and commercial communication systems.

O HIGH DATA RATE COMMUNICATIONS

The Company is a technology leader in high data rate, covert, jam-resistant microwave communications in support of military and other national agency reconnaissance and surveillance applications. L-3's product line covers a full range of tactical and strategic secure point-to-point and relay data transmission systems, products and support services that conform to military and intelligence specifications. The Company's systems and products are capable of providing battlefield commanders with real time, secure surveillance and targeting information and were used extensively by U.S. armed forces in the Persian Gulf war.

During the 1980s, largely based on its prior experience with command and control guidance systems for remotely-piloted vehicles, L-3 developed its current family of strategic and tactical data links, including its Modular Interoperable Data Link ("MIDL") systems and Modular Interoperable Surface Terminals ("MIST"). MIDL and MIST technologies are considered virtual DoD standards in terms of data link hardware. The Company's primary focus is spread spectrum communication (based on CDMA technology), which involves transmitting a data signal with a high rate noise signal so as to make it difficult to detect by others, and then re-capturing the signal and removing the noise. The Company's data links are capable of providing information at over 200 Mb/s.

L-3 provides these secure high band width products to the U.S. Air Force, Navy, Army and various Government agencies, many through long-term sole source programs. The scope of these programs include air-to-ground, air-to-air, ground-to-air and satellite communications. Government programs include: U-2 Support Program, Common High-Band Width Data Link ("CHBDL"), Battle Group Passive Horizon Extension System ("BGPHES"), Light Airborne Multi-Purpose System ("LAMPS"), TriBand SATCOM Subsystem ("TSS"), major unmanned aerial vehicle ("UAV") programs and Direct Air-Satellite Relay ("DASR").

O SATELLITE COMMUNICATION TERMINALS

L-3 provides ground-to-satellite, high availability, real-time global communications capability through a family of transportable field terminals to communicate with commercial, military and international satellites. These terminals provide remote personnel with anywhere, anytime effective communication capability and provide communications links to distant forces. The Company's TriBand SATCOM Subsystem ("TSS") employs a 6.25 meter tactical dish with a single point feed that provides C, Ku and X band communication to support the U.S. Army. The Company also offers an 11.3 meter dish which is transportable on two C-130 aircraft. The SHF Portable Terminal System ("PTS") is a lightweight (28 lbs.), manportable terminal, which communicates through DSCS, NATO or SKYNET satellites and brings unprecedented connectivity to small military tactical units and mobile command posts. L-3 delivered 14 of these terminals for use by NATO forces in Bosnia.

O SPACE COMMUNICATIONS AND SATELLITE CONTROL

Continuing L-3's tradition of providing communications for every manned U.S. space flight since Mercury, the Company is currently designing and testing three communication subsystems for the International Space Station ("ISS"). These systems will control all ISS radio frequency ("RF") communications and external video activities. The Company also provides solid-state recorders and memory units for data capture, storage, transfer and retrieval for space applications. The standard NASA tape recorder, which was developed and produced by the Company, has completed over four million hours of service without a mission failure. Current programs include recorders for the National Oceanic & Atmospheric Administration ("NOAA") weather satellites, the Earth Observing Satellite ("EOS"), AM spacecraft and Landsat-7 Earth-monitoring spacecraft. The Company also provides space and satellite system simulation, satellite operations and computer system training, depot support, network engineering, resource scheduling, launch system engineering, support, software integration and test through cost-plus contracts with the U.S. Air Force.

O MILITARY COMMUNICATIONS

The Company provides integrated, computer controlled switching systems for the interior and exterior voice and data needs of today's Navy military vessels. The Company's products include Integrated Voice Communication Systems ("IVCS") for Aegis cruisers and destroyers and the Integrated Radio Room ("IRR") for Trident class submarines, the first computer controlled communications center in a submarine. These products integrate the intercom, tactical and administrative communications network into one system accessing various types of communication terminals throughout the ship. The Company's MarCom 2000 secure digital switching system is in development for the Los Angeles class attack submarine and provides an integrated approach to the specialized voice and data communications needs of a shipboard environment for internal and external communications, command and control and air traffic control. The Company also offers on-board, high data rate communications systems which provide a data link for carrier battle groups which are interoperable with the U.S. Air Force's surveillance/ reconnaissance terminal platforms. The Company provides the US Army's Command and Control Vehicle ("C2V") Mission Module Systems ("MMS"). MMS provides the "communications on the move" capability needed for the digital battlefield by packaging advanced communications into a modified Bradley Fighting Vehicle. The Company is a proven supplier of superior technological expertise to the DoD, including its contractors and related government intelligence agencies.

O INFORMATION SECURITY SYSTEMS

The Company has produced more than 100,000 secure telephone units ("STU III") which are in use today by the U.S. Armed Forces to provide secure telephone capabilities for classified confidential communication over public commercial telephone networks. The Company has begun producing the next-generation digital, ISDN-compatible STE. STE provides clearer voice and thirteen-times faster data/fax transmission capability than the STU III. STE also supports secure conference calls and secure video teleconferencing. STE uses a CryptoCard security system which consists of a small, portable, cryptographic module mounted on a PCMCIA card holding the algorithms, keys and personalized credentials to identify its user for secure communications access. The Company also provides LMD/KP which is the workstation component of the Government's Electronic Key Management System ("EKMS"), the next generation of information security systems. EKMS is the Government system to replace current "paper" secret keys used to secure government communications with "electronic" secret keys. LMD/KP is the component of the EKMS which produces and distributes the electronic keys. L-3 also develops specialized strategic and tactical SIGINT systems to detect, acquire, collect, and process information derived from electronic sources. These systems are used by classified customers for intelligence gathering and require high speed digital signal processing and high density custom hardware designs.

O TACTICAL SECURITY SYSTEMS

The Company manufactures the IREMBASS, an unattended ground sensor system which uses sensors placed along likely avenues of enemy approach or intrusion in a battlefield environment. The sensors respond to seismic and acoustic disturbances, infrared energy and magnetic field changes and thus detect enemy activities. IREMBASS is currently in use by U.S. Special Operations Forces, the U.S. Army's Light Divisions and several foreign governments. The Company also provides the Intrusion Detection Early Warning System ("IDEWS"), a sensor system designed for platoon-level physical security applications. Weighing less than two pounds, this sensor system is ideal for covert perimeter intrusion detection, border protection and airfield or military installation security.

SPECIALIZED COMMUNICATION PRODUCTS

MICROWAVE COMPONENTS

L-3 is the preeminent worldwide supplier of commercial off-the-shelf, high performance radio frequency ("RF") microwave components, assemblies and instruments supplying the wireless communications, industrial and military markets. The Company is also a leading provider of state-of-the-art space-qualified commercial satellite and strategic military RF products. L-3 sells many of these components under the well-recognized Narda brand name and through the world's most comprehensive catalog of standard, stocked hardware. L-3 also sells its products through a direct sales force and an extensive network of premier market representatives. Specific catalog offerings include wireless products, electro-mechanical switches, power dividers and hybrids, couplers/detectors, attenuators, terminations and phase shifters, isolators and circulators, adapters, control products, sources, mixers, waveguide components, RF safety products, power meters/monitors and custom passive products. The Company operates from two sites, Hauppauge, New York ("Narda East"), and Sacramento, California ("Narda West").

Narda East represents approximately 65% of L-3's microwave sales volume, offering high performance microwave components, networks and instruments to the wireless, industrial and military communications markets. Narda East's products can be divided into three major categories: passive components, higher level wireless assemblies/monitoring systems and safety instruments.

Passive components are generally purchased in narrow frequency configurations by wireless OEM equipment manufacturers and service providers. Similar components are purchased in wide frequency configurations by first tier military equipment suppliers. Commercial applications for Narda components are primarily in cellular or PCS base stations. Narda also manufactures higher level assemblies for wireless base stations and the paging industry. These products include communication antenna test sets, devices that monitor reflected power to determine if a cellular base station antenna is working and whether the base station radios are operating at peak power levels. Military applications include general procurement for test equipment or electronic surveillance and countermeasure systems. RF safety products are instruments which are used to measure the level of non-ionizing radiation in a given area, i.e., from an antenna, test set or other emitting source, and determine whether human exposure limits are within federal standards.

Narda West designs and manufactures state-of-the-art space-qualified and wireless components. Space qualified components include channel amplifiers for satellite transponder control and diplexers/ multiplexers, which are used to separate various signals and direct them to the appropriate other sections of the payload. Narda West's primary areas of focus are communications satellite payload products. Channel amplifiers constitute Narda West's main satellite product. These components amplify the weak signals received from earth stations by a factor of 1 million, and then drive the power amplifier tubes that broadcast the signal back to earth. These products are sold to satellite manufacturers and offer lower cost, lower weight and improved performance versus in-house alternatives. On a typical satellite, for which there are 20 to 50 channel amps, Narda West's channel amps offer cost savings of up to 60% (up to $1 million per satellite) and decrease launch weight by up to 25 kilograms.

Narda West products include wireless microwave components for cellular and PCS base station applications. These products include filters used to transmit and receive channel separation as well as ferrite components, which isolate certain microwave functions, thereby preventing undesired signal interaction. Other products include a wide variety of high-reliability power splitters, combiners and filters for spacecraft and launch vehicles, such as LLV, Tiros, THAAD, Mars Surveyor, Peacekeeper, Galileo, Skynet, Cassini, Milstar, Space Shuttle, LandSat, FltSatCom, GPS, GPS Block IIR, IUS, ACE, SMEX and certain classified programs. The balance of the operation's business is of an historical nature and involves wideband filters used for electronic warfare applications.

AVIONICS AND OCEAN SYSTEMS

O AVIATION RECORDERS

L-3 manufactures commercial solid-state crash-protected aviation recorders ("black boxes") under the Fairchild brand name, and has delivered over 40,000 flight recorders to airplane manufacturers and airlines around the world. Recorders are mandated and regulated by various worldwide agencies for commercial airlines and a large portion of business aviation aircraft. Management anticipates growth opportunities in Aviation Recorders as a result of the current high level of orders for new commercial aircraft. Expansion into the military market shows continued growth opportunities. L-3 Recorders were recently selected for installation on the fleet of the Royal Australian Air Force and Royal Australian Army transport aircraft and are currently being installed on the U.S. Navy C-9 aircraft. There are two types of recorders: (i) the Cockpit Voice Recorder ("CVR") which records the last 30 to 120 minutes of crew conversation and ambient sounds from the cockpit and (ii) the Flight Data Recorder ("FDR") which records the last 25 hours of aircraft flight parameters such as speed, altitude, acceleration, thrust from each engine and direction of the flight in its final moments. Recorders are highly ruggedized instruments, designed to absorb the shock equivalent to that of an object traveling at 268 knots stopping in 18 inches, fire resistant to 1,100 degrees centigrade and pressure resistant to 20,000 feet undersea for 30 days. Management believes that the Company has the leading worldwide market position for CVR's and FDR's.

O ANTENNA SYSTEMS

Under the Randtron brand name, L-3 produces high performance antennas designed for surveillance, high-resolution, ultra-wide frequency bands, detection of low radar cross section ("LRCS") targets, LRCS installations, severe environmental applications and polarization diversity. L-3's main antenna product is a sophisticated 24-foot diameter antenna operational on all E-2C aircraft. This airborne antenna consists of a 24-foot rotating aerodynamic radome containing a UHF surveillance radar antenna, IFF antenna and forward and aft auxiliary antennas. Production of this antenna began in the early 1980s, and production is planned beyond 2000 for the E-2C, P-3 and C-130 AEW aircraft. The replacement for this antenna is a very adaptive radar currently under development for introduction early in the next decade. L-3 also produces broad-band antennas for a variety of tactical aircraft and rotary joints for the AWAC's and E-2C's antenna. Randtron has delivered over 2,000 aircraft sets of antennas and has a current backlog through 1999.

O DISPLAY SYSTEMS

L-3 specializes in the design, development and manufacture of ruggedized display system solutions for military and high-end commercial applications. L-3's current product lines include cathode ray tubes ("CRTs"), the Actiview family of active matrix liquid crystal displays ("AMLCD"), and a family of high performance Display Processing systems. L-3 manufactures flat-panel displays that are used on platforms such as E-2C, F-117, and the LCAC (Landing Craft Air Cushion) vehicle. Recent new contracts for flat-panel displays include the SH-60J helicopter and the C-130 Senior Scout. L-3 also manufactures CRT displays for the E-2C Hawkeye, V-22 Osprey, and F-14 Tomcat and electronics used in aircraft anti-lock braking systems.

O OCEAN SYSTEMS

The Company is one of the world's leading suppliers of acoustic undersea warfare systems, having designed, manufactured and supported a broad range of compact, lightweight, high performance acoustic systems for navies around the world for over forty years. This experience spans a wide range of platforms, including helicopters, submarines and surface ships, that employ the Company's sonar systems and countermeasures.

TELEMETRY, INSTRUMENTATION AND SPACE

The Company is a leader in component products and systems used in telemetry and instrumentation for airborne applications such as satellites, aircraft, UAVs, launch vehicles, guided missiles, projectiles and targets. Telemetry involves the collection of data from these platforms, its transmission to ground stations for analysis, and its further dissemination or transportation to another platform. A principal use of this telemetry data is to measure as many as 1,000 different parameters of the platform's operation (in much the same way as a flight data recorder on an airplane measures various flight parameters) and transmit this data to the ground.

Additionally, for satellite platforms, the equipment also acquires the command uplink that controls the satellite and transmits the necessary data for ground processing. In these applications, high reliability of components is crucial because of the high cost of satellite repair and the length of uninterrupted service required. Telemetry also provides the data to terminate the flight of missiles and rockets under errant conditions and/or at the end of a mission. Telemetry and command/control products are currently provided on missile programs such as AMRAAM, ASRAAM, AIM-9X, JASSM, JDAM, FOTT, ATACMS and PAC-3, as well as satellite programs such as GPS BLK IIF, GLOBALSTAR, EARTHWATCH, SBIRS, LUNAR PROSPECTOR and MTSAT.

O AIRBORNE, GROUND AND SPACE TELEMETRY

The Company provides airborne equipment and data link systems to gather critical information and to process, format and transmit it to the ground through communication data links from a communications satellite, spacecraft, aircraft and/or missile. These products are available in both COTS and custom configurations. Major customers are the major defense contractors who manufacture aircraft, missiles, warheads, launch vehicles, munitions and bombs. Ground instrumentation activity occurs at the ground station where the serial stream of combined data is received and decoded in real-time, as it is received from the airborne platform. Data can be encrypted and decrypted during this process, an additional expertise that the Company offers. The Company recently introduced the NeTstar satellite ground station, which collapses racks of satellite RF receivers, demodulators and related units into a PC.

O SPACE PRODUCTS

L-3 offers value-added solutions that require complex product integration, rich software content and comprehensive support to its customers. The Company focuses on the following niches within the satellite ground segment equipment market: telephony, video broadcasting and multimedia. The Company's customers include foreign PTT's, domestic and international prime communications infrastructure contractors, telecommunications or satellite service providers, broadcasters and media-related companies.

EMERGING COMMERCIAL PRODUCTS

O MEDICAL ARCHIVING AND SIMULATION SYSTEMS

The Company markets jointly with GE Medical Systems GEMnet(Trademark), a cardiac image management and archive system through an exclusive reseller arrangement with GE Medical Systems. GEMnet(Trademark) eliminates the use of cinefilm in a cardiac catheterization laboratory by providing a direct digital connection to the laboratory. The system provides for acquisition, display, analysis and short-and long-term archive of cardiac patient studies, providing significant cost savings and process improvements to the hospital. The Company is an exclusive reseller of EchoNet(Trademark) pursuant to a reseller arrangement with Heartlab, Inc. EchoNet(Trademark) is a digital archive management and review system designed specifically for the echocardiology profession. The system accepts digital echocardiology studies from a variety of currently available ultrasound systems, manages the studies, making them available on a network, and allows the physicians and technicians to become more productive. EchoNet(Trademark) is a trademark of Heartlab, Inc. GEMnet(Trademark) is a trademark of GE.

The Company has approximately a one-third equity ownership interest in Medical Education Technologies, Inc. ("METI"). METI is a medical technology company engaged in the development, manufacture and sale of Human Patient Simulators ("HPS"). The HPS is a computerized system with a life-like mannequin that reacts to medical treatments and interventions similar to a human being. Originally oriented to the anesthesiology training and education domain, METI has expanded into cardiology, critical care, trauma care, allied health care, military medicine and continuing medical education. METI's target customers for its HPS include medical schools throughout the world, colleges with registered nursing programs, community colleges and state, local and volunteer emergency medical service organizations.

O WIRELESS LOOP TELECOMMUNICATIONS EQUIPMENT

The Company is applying its wireless communication expertise to introduce local wireless loop telecommunications equipment using a synchronous Code Division Multiple Access technology ("CDMA") supporting terrestrial and space based, fixed and mobile communication services. The system's principal targeted customer base is emerging market countries and rural areas where existing telecommunications infrastructure is inadequate or non-existent. The Company's system will have the potential to interface with low earth orbit ("LEO") PCS systems such as Globalstar, Iridium and/or any local public telephone network. The Company expects to manufacture for sale certain of the infrastructure equipment. The Company intends to pursue joint ventures with third parties for service and distribution capabilities. The Company has entered into product distribution agreements with Granger Telecom Ltd. for distribution in parts of Africa, the Middle East and the United Kingdom, and with Unisys for distribution in parts of Mexico and South America. This same technology is also being introduced into the Ellipso "big LEO" program to provide the key communications capability in the ground and user segments. In this program, the Company will provide the CDMA processing equipment in the Ground Control Segment and the Ellipso user terminals, both fixed and mobile.

O AIRPORT SECURITY EQUIPMENT

The FAA has awarded the Company a development contract for next generation airport security equipment for explosive detection. L-3 has teamed with Analogic Corporation and GE to design and produce an explosive detection system ("EDS") utilizing a dual energy computer tomography ("CT") X-ray system. L-3's EDS system, the eXaminer 3DX(Trademark) 6000, will analyze the contents of checked baggage at airports for a wide-range of explosive material as specified by the FAA. The eXaminer 3DX(Trademark) 6000 will inspect baggage at an average of 675 bags per hour, which will allow screening of passenger-checked baggage for a large body aircraft, such as a Boeing 747, in approximately 40 minutes. It can be installed as a stand-alone unit in a conveyor system or in a mobile van. L-3 has shipped two prototype test units and FAA certification testing commenced in the first quarter of 1998.

MAJOR CUSTOMERS

The Company's sales are predominantly derived from contracts with agencies of, and prime contractors to, the Government. Various Government customers exercise independent purchasing decisions. Sales to the Government generally are not regarded as constituting sales to one customer. Instead, each contracting entity is considered to be a separate customer. In 1997, the Company performed under approximately 150 contracts with value exceeding $1 million for the Government. Pro forma 1997 sales to the Government, including sales through prime contractors, were $651.1 million. Pro forma sales to Lockheed Martin were $81.6 million in 1997. The Company's largest program, representing 13% of 1997 pro forma sales, is a long-term, sole source cost plus support contract for the U-2 Program. No other program represented more than 7% of pro forma 1997 sales.

RESEARCH AND DEVELOPMENT

The Company employs scientific, engineering and other personnel to improve its existing product lines and to develop new products and technologies in the same or related fields. As of December 31, 1997, the Company employed approximately 2,000 engineers (of whom over 20% hold advanced degrees). The pro forma amounts of research and development performed under customer-funded contracts and Company-sponsored research projects, including bid and proposal costs, for 1997 were $150.2 million and $46.2 million, respectively.

COMPETITION

The Company's ability to compete for defense contracts depends to a large extent on the effectiveness and innovativeness of its research and development programs, its ability to offer better program performance than its competitors at a lower cost to the Government customer, and its readiness in facilities, equipment and personnel to undertake the programs for which it competes. In some instances, programs are sole source or work directed by the Government to a single supplier. In such cases, there may be other suppliers who have the capability to compete for the programs involved, but they can only enter or reenter the market if the Government should choose to reopen the particular program to competition. Approximately 65% of the Company's 1997 pro forma sales related to sole source contracts.

The Company experiences competition from industrial firms and U.S. government agencies, some of which have substantially greater resources than the Company. These competitors include: AlliedSignal, AMP, Inc., Aydin Corporation, Cubic Corporation, GTE Corporation, Harris Corporation, Hughes, Motorola and Titan Corporation. A majority of the sales of the Company is derived from contracts with the Government and its prime contractors, and such contracts are awarded on the basis of negotiations or competitive bids. Management does not believe any one competitor or a small number of competitors is dominant in any of the business areas of the Company. Management believes the Company will continue to be able to compete successfully based upon the quality and cost competitiveness of its products and services.

PATENTS AND LICENSES

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

BACKLOG

As of December 31, 1997, the Company's pro forma funded backlog was approximately $638.1 million. This backlog provides management with a useful tool to project sales and plan its business on an on-going basis; however, no assurance can be given that the Company's backlog will become revenues in any particular period or at all. Funded backlog does not include the total contract value of multi-year, cost-plus reimbursable contracts, which are funded as costs are incurred by the Company. Funded backlog also does not include unexercised contract options which represent the amount of revenue which would be recognized from the performance of contract options that may be exercised by customers under existing contracts and from purchase orders to be issued under indefinite quantity contracts or basic ordering agreements. Backlog is a more relevant predictor of future sales in the Secure Communication Systems business area. Current funded backlog in Secure Communication Systems as of December 31, 1997 was $306.0 million, of which approximately 93% is expected to be shipped in 1998. The Company believes backlog is a less relevant factor in the Specialized Communication Products business area given the nature of its catalog and commercial oriented business. Overall, approximately 85% of the Company's December 31, 1997 funded backlog is expected to be shipped in 1998.

	PRO FORMA FUNDED BACKLOG AS OF DECEMBER 31, 1997 ($ IN MILLIONS)
Secure Communication Systems	$306.0
Specialized Communication Products..........	332.1
	$638.1

GOVERNMENT CONTRACTS

Approximately 73% of the Company's 1997 pro forma sales were made to agencies of the Government or to prime contractors or subcontractors of the Government.

Approximately 64% of the Company's pro forma 1997 sales mix of contracts were firm fixed price contracts under which the Company agrees to perform for a predetermined price. Although the Company's fixed price contracts generally permit the Company to keep profits if costs are less than projected, the Company does bear the risk that increased or unexpected costs may reduce profit or cause the Company to sustain losses on the contract. Generally, firm fixed price contracts offer higher margin than cost plus type contracts. All domestic defense contracts and subcontracts to which the Company is a party are subject to audit, various profit and cost controls and standard provisions for termination at the convenience of the Government. Upon termination, other than for a contractor's default, the contractor will normally be entitled to reimbursement for allowable costs and to an allowance for profit. Foreign defense contracts generally contain comparable provisions relating to termination at the convenience of the government. To date, no significant fixed price contract of the Company has been terminated.

Companies supplying defense-related equipment to the Government are subject to certain additional business risks peculiar to that industry. Among these risks are the ability of the Government to unilaterally suspend the Company from new contracts pending resolution of alleged violations of procurement laws or regulations. Other risks include a dependence on appropriations by the Government, changes in the Government's procurement policies (such as greater emphasis on competitive procurements) and the need to bid on programs in advance of design completion. A reduction in expenditures by the Government for products of the type manufactured by the Company, lower margins resulting from increasingly competitive procurement policies, a reduction in the volume of contracts or subcontracts awarded to the Company or substantial cost overruns would have an adverse effect on the Company's cash flow.

ENVIRONMENTAL MATTERS

The Company's operations are subject to various federal, state and local environmental laws and regulations relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes used in its operations. The Company continually assesses its obligations and compliance with respect to these requirements. Management believes that the Company's current operations are in substantial compliance with all existing applicable environmental laws and permits. The Company does not believe that its environmental compliance expenditures will have a material adverse effect on its financial condition or results of its operations.

Pursuant to the L-3 Acquisition Agreement, the Company has agreed to assume certain on-site and off-site environmental liabilities related to events or activities occurring prior to the L-3 Acquisition. Lockheed Martin has agreed to retain all environmental liabilities for all facilities no longer used by the Businesses and to indemnify fully the Company for such prior site environmental liabilities. Lockheed Martin has also agreed, for the first eight years following April 1997, to pay 50% of all costs incurred by the Company above those reserved for on the Company's balance sheet at April 1997 relating to certain Company-assumed environmental liabilities and, for the seven years thereafter, to pay 40% of certain reasonable operation and maintenance costs relating to any environmental remediation projects undertaken in the first eight years. The Company is aware of environmental contamination at two of the facilities acquired from Lockheed Martin that will require ongoing remediation. In November 1997, the Company sold one such facility located in Sarasota, Florida, while retaining a leasehold interest in a portion of that facility, to Dames & Moore/Brookhill LLC ("DMB") in a transaction in which DMB contractually agreed to assume responsibility for further remediation of the Sarasota site. Management believes that the Company has established adequate reserves for the potential costs associated with the assumed environmental liabilities. However, there can be no assurance that any costs incurred will be reimbursable from the Government or covered by Lockheed Martin under the terms of the L-3 Acquisition Agreement or that the Company's environmental reserves will be sufficient.

In connection with the acquisition of Ocean Systems, the Company has acquired the stock of ELAC. The premises currently leased by ELAC have environmental contamination consisting of chlorinated solvents in the groundwater beneath and adjoining the site. However, Honeywell Inc. ("Honeywell"), the previous owner of ELAC and the current owner of the property, has retained the liability for remediating the ELAC site and has contractually agreed to indemnify AlliedSignal and ELAC. Management believes that any necessary remediation will be covered by the Honeywell indemnification.

PENSION PLANS

In connection with the L-3 Acquisition Agreement, Holdings and L-3 Communications assumed certain liabilities relating to defined benefit pension plans for present and former employees and retirees of certain businesses which were transferred from Lockheed Martin to Holdings and L-3 Communications. Prior to the consummation of the L-3 Acquisition, Lockheed Martin received a letter from the PBGC which requested information regarding the transfer of such pension plans and indicated that the PBGC believed certain of such pension plans were underfunded using the PBGC's actuarial assumptions (which assumptions result in a larger liability for accrued benefits than the assumptions used for financial reporting under FASB 87). The PBGC underfunding is related to the Subject Plans. As of December 31, 1997, the Company calculated the net funding position of the Subject Plans and believes them to be overfunded by approximately $5.9 million under ERISA assumptions, underfunded by approximately $10.2 million under FASB 87 assumptions and, on a termination basis, underfunded by as much as $57.5 million under PBGC assumptions.

With respect to the Subject Plans, Lockheed Martin entered into an agreement (the "Lockheed Martin Commitment Agreement") among Lockheed Martin, L-3 and the PBGC dated as of April 30, 1997. The material terms and conditions of the Lockheed Martin Commitment Agreement include a commitment by Lockheed Martin to, under certain circumstances, assume sponsorship of the Subject Plans or provide another form of financial support for the Subject Plans. The Lockheed Martin Commitment Agreement will continue with respect to any Subject Plan until such time as such Subject Plan is no longer underfunded on a PBGC basis for two consecutive years or, at any time after May 31, 2002, the Company achieves investment grade credit ratings. Pursuant to the Lockheed Martin Commitment Agreement, the PBGC agreed that it would take no further action in connection with the L-3 Acquisition.

In return for the Lockheed Martin Commitment, the Company entered into an agreement with Lockheed Martin, dated as of April 30, 1997, pursuant to which the Company provided certain assurances to Lockheed Martin including, but not necessarily limited to, (i) continuing to fund the Subject Plans consistent with prior practices and to the extent deductible for tax purposes and, where appropriate, recoverable under Government contracts, (ii) agreeing to not increase benefits under the Subject Plans without the consent of Lockheed Martin, (iii) restricting the Company from a sale of any businesses employing individuals covered by the Subject Plans if such sale would not result in reduction or elimination of the Lockheed Martin Commitment with regard to the specific plan and (iv) if the Subject Plans were returned to Lockheed Martin, granting Lockheed Martin the right to seek recovery from the Company of those amounts actually paid, if any, by Lockheed Martin with regard to the Subject Plans after their return. In addition, upon the occurrence of certain events, Lockheed Martin, at its option, will have the right to decide whether to assume sponsorship of any or all of the Subject Plans, even if the PBGC has not sought to terminate the Subject Plans. The Company has performed its obligations under the letter agreement with Lockheed Martin and the Lockheed Martin Commitment and has not received any communications from the PBGC concerning actions which the PBGC contemplates taking in respect of the Subject Plans.

EMPLOYEES

As of December 31, 1997, the Company employed approximately 6,100 full-time and part-time employees. The Company believes that its relations with its employees are good.

Approximately 540 of the Company's employees at its Communication Systems - -- East operation in Camden, New Jersey are represented by four unions, the Association of Scientists and Professional Engineering Personnel, the International Federation of Professional and Technical Engineers, the International Union of Electronic, Electrical, Salaried, Machine and Furniture Workers and an affiliate of the International Brotherhood of Teamsters. Three of the four collective bargaining agreements expire in mid-1998. While the Company has not yet initiated discussions with representatives of these unions, management believes it will be able to negotiate, without material disruption to its business, satisfactory new collective bargaining agreements with these employees. However, there can be no assurance that a satisfactory agreement will be reached with the covered employees or that a material disruption to the Company's Camden operations will not occur.

Approximately 200 employees of Ocean Systems are represented by the United Auto Workers. The collective bargaining agreement expires in mid-1999. Approximately 140 of the employees at Ocean Systems' ELAC subsidiary in Kiel, Germany are represented by the Metal Trade Industrial Workers of the Hamburg Region and ELAC is represented by the Association of Metal Industry Employers for Schleswig-Holstein. The labor contract expires in mid-1998. While the Company has not yet initiated discussions with representatives of these unions, management believes it will be able to negotiate, without material disruption to its business, a satisfactory new labor contract with these employees. However, there can be no assurance that a satisfactory agreement will be reached with the covered employees or that material disruption to operations of ELAC or Ocean Systems will not occur.

ITEM 2. PROPERTIES.

The table below sets forth certain information with respect to manufacturing facilities and properties of the Company, excluding non-operating properties held for sale.

LOCATION	OWNED	LEASED
	(THOUSANDS OF SQUARE FEET)	
L-3 Headquarters, NY	--	58.7
SECURE COMMUNICATION SYSTEMS:		
Camden, NJ	--	588.7
Salt Lake City, UT	--	457.6
Sierra Vista, AZ	--	18.8
Camarillo, CA	--	2.4
El Segundo, CA	--	1.4
Milpitas, CA	--	21.4
Oakland, CA	--	5.2
Santa Ana, CA	--	5.0
Santa Clara, CA	--	6.2
Santa Maria, CA	--	9.8
Colorado Springs, CO	--	5.8
Hartford, CT	--	1.8
Chicago, IL	--	7.3
Boston, MA	--	25.6
Annapolis Junction, MD	--	6.6
Wheaton, MD	--	0.5
Moorestown, NJ	--	2.8
Shrewsbury, NJ	--	22.5
New York, NY	--	5.9
Cleveland, OH	--	1.4
Fairfax, VA	--	1.6
Warrentown, VA	--	0.8
SPECIALIZED COMMUNICATION PRODUCTS:		
Folsom, CA	--	57.5
Lancaster, CA	--	5.4
Menlo Park, CA	--	98.3
San Diego, CA	196.0	68.9
San Mateo, CA	--	14.8
Santa Clara, CA	--	2.0
Sylmar, CA	--	240.0
Sarasota, FL	--	143.7
Merritt Island, FL	--	1.2
Atlanta, GA	--	52.1
Alpharetta, GA	40.0	--
Norcross, GA	--	4.8
Lowell, MA	--	47.0
Hauppauge, NY	240.0	--
Warminster, PA	44.7	--
Hampshire (U.K.)	--	1.2
Kiel, Germany	--	143.0
Total	520.7	2,137.7

ITEM 3. LEGAL PROCEEDINGS.

From time to time the Company is involved in legal proceedings arising in the ordinary course of its business. Management believes it is adequately reserved for these liabilities and that there is no litigation pending that could have a material adverse effect on the Company's financial condition and its results of operations.

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

None

PART II

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

There is no established public trading market for the Company's common stock. All of the issued and outstanding shares of common stock of the Company are held by its parent, Holdings.

ITEM 6. SELECTED FINANCIAL DATA.

The selected unaudited pro forma data as of December 31, 1997 and for the year then ended have been derived from, and should be read in conjunction with, the unaudited pro forma condensed consolidated financial statements included elsewhere herein. The unaudited pro forma statement of operations and other data reflect the L-3 Acquisition, the 1998 Acquisitions and the Offerings as if such transactions had occurred on January 1, 1997 for the statement of operations and other data. The balance sheet data reflect the 1998 Acquisitions and the Offerings as if such transactions had occurred on December 31, 1997.

The selected consolidated (combined) financial data as of December 31, 1997, 1996, 1995 and 1994, and for the nine months ended December 31, 1997, the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995 have been derived from the audited financial statements for the respective periods. The selected consolidated (combined) financial data as of December 31, 1993 and March 31, 1993, the nine months ended December 31, 1993 and the three months ended March 31, 1993 have been derived from the unaudited financial statements of the Company. In the opinion of management, such unaudited financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the results for the interim periods presented.

These selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated (Combined) Financial Statements of the Company (Predecessor Company) and the Loral Acquired Businesses included elsewhere herein. Prior to April 1, 1996, the Predecessor Company was only comprised of Communications Systems -- East.

	COMPANY		PREDECESSOR COMPANY					
	YEAR ENDED DECEMBER 31, 1997 PRO FORMA	NINE MONTHS ENDED DEC. 31,(1) 1997	THREE MONTHS ENDED MARCH 31, 1997	YEAR ENDED DECEMBER 31, 1996(2)	1995(3)	1994(3)	NINE MONTHS ENDED DEC. 31,(3) 1993	THREE MONTHS ENDED MARCH 31,(4) 1993
	(IN MILLIONS, EXCEPT PER SHARE DATA)							
STATEMENT OF OPERATIONS DATA:								
Sales	$894.0	$ 546.5	$158.9	$ 543.1	$166.8	$218.9	$200.0	$67.8
Operating income	58.4	51.5(5)	7.9	43.7	4.7	8.4	12.4	5.1
Interest expense, net(6) ...	42.5	28.5	8.4	24.2	4.5	5.5	4.1	
Provision (benefit) for income taxes(6)	4.7	10.7	(0.2)	7.8	1.2	2.3	3.8	2.0
Net income (loss)	11.2	12.3(5)	(0.3)	11.7	(1.0)	0.6	4.5	3.1
BALANCE SHEET DATA:								
Working capital	131.7	$ 131.8		$ 98.8	$ 21.1	$ 19.3	$ 24.7	$22.8
Total assets	881.1	703.4		593.3	228.5	233.3	241.7	93.5
Long-term debt	414.9	392.0						
Invested equity				473.6	194.7	199.5	202.0	59.9
Shareholders' equity	229.2	132.7						
OTHER DATA:								
EBITDA(7)	$ 95.1	$ 78.1	$ 15.7	$ 71.8	$ 16.3	$ 19.9	$ 23.4	$ 7.0
Net cash from (used in) operating activities		73.9	(16.3)	30.7	9.3	21.8		
Net cash (used in) investing activities		(457.8)	(4.3)	(298.0)	(5.5)	(3.7)		
Net cash from (used in) financing activities		461.4	20.6	267.3	(3.8)	(18.1)		
Depreciation expense	22.0	13.3	4.5	14.9	5.5	5.4	6.1	1.8
Amortization expense	14.7	8.9	3.3	13.2	6.1	6.1	4.9	0.1
Capital expenditures	19.9	11.9	4.3	13.5	5.5	3.7	2.6	0.8
Ratios of:								
Earnings to fixed charges(8)	1.3X	1.7X	--(9)	1.7X	1.0X	1.4X	2.5X	
EBITDA to cash interest expense(10)(11)	2.4X							
Net debt to EBITDA(11)	4.0X							

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(1) Reflects the L-3 Acquisition effective April 1, 1997.

(2) Reflects ownership of Loral's Communication Systems -- West and Specialized Communication Products businesses commencing April 1, 1996.

(3) Reflects ownership of Communication Systems -- East by Lockheed Martin effective April 1, 1993.

(4) Reflects the ownership of Communications Systems -- East by GE Aerospace. The amounts shown herein include only those amounts as reflected in the financial records of Communications Systems --East.

(5) Includes a nonrecurring, noncash compensation charge of $4.4 million related to the initial capitalization of the Company, effective April 1, 1997.

(6) For periods prior to April 1, 1997, interest expense and income tax (benefit) provision were allocated from Lockheed Martin.

(7) EBITDA is defined as operating income plus depreciation expense and amortization expense (excluding the amortization of deferred debt issuance costs) and the nonrecurring, noncash compensation charge of $4.4 million recorded on April 1, 1997. EBITDA is not a substitute for operating income, net income and cash flow from operating activities as determined in accordance with generally accepted accounting principles as a measure of profitability or liquidity. EBITDA is presented as additional information because management believes it to be a useful indicator of the Company's ability to meet debt service and capital expenditure requirements.

(8) For purposes of this computation, earnings consist of income before income taxes plus fixed charges. Fixed charges consist of interest on indebtedness plus that portion of lease rental expense representative of the interest element.

(9) Earnings were insufficient to cover fixed charges by $0.5 million for the three months ended March 31, 1997.

(10) For purposes of this computation, cash interest expense consists of pro forma interest expense excluding amortization of deferred debt issuance costs.

(11) Net debt is defined as long-term debt plus current portion of long-term debt less cash and cash equivalents.

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

GENERAL

The Company is a leading merchant supplier of sophisticated secure communication systems and specialized communication products including secure, high data rate communication systems, microwave components, avionics and ocean systems, telemetry, instrumentation and space products. These systems and products are critical elements of virtually all major communication, command and control, intelligence gathering and space systems. The Company's systems and specialized products are used to connect a variety of airborne, space, ground-and sea-based communication systems and are incorporated into the transmission, processing, recording, monitoring and dissemination functions of these communication systems. The Company's customers include the DoD, selected Government intelligence agencies, major aerospace/defense prime contractors, foreign governments and commercial customers. The Company operates primarily in one industry segment, electronic components and systems.

All domestic government contracts and subcontracts of the Company are subject to audit and various cost controls, and include standard provisions for termination for the convenience of the Government. Multi-year Government contracts and related orders are subject to cancellation if funds for contract performance for any subsequent year become unavailable. Foreign government contracts generally include comparable provisions relating to termination for the convenience of the relevant foreign government.

The defense industry has recently undergone significant changes precipitated by ongoing federal budget pressures and new roles and missions to reflect changing strategic and tactical threats. Since the mid-1980's, the overall U. S. defense budget has declined in real dollars. In response, the DoD has focused its resources on enhancing its military readiness, joint operations and digital command and control communications by incorporating advanced electronics to improve the performance, reduce operating cost and extend the life expectancy of its existing and future platforms. The emphasis on system interoperability, force multipliers and providing battlefield commanders with real-time data is increasing the electronics content of nearly all of the major military procurement and research programs. As a result, the DoD's budget for communications and defense electronics is expected to grow. According to Federal Sources, an independent private consulting group, the defense budget for C(3)I is expected to increase from $31.0 billion in the fiscal year ended September 30, 1997 to $42.0 billion in the fiscal year ended September 30, 2002, a compound annual growth rate of 6.3%.

ACQUISITION HISTORY

The Company was formed to acquire substantially all of the assets of (i) nine business units previously purchased by Lockheed Martin as part of its acquisition of Loral in April 1996 (the "Loral Acquired Businesses") which include eight business units of Loral ("Specialized Communications products") and one business unit purchased by Loral as part of its acquisition of the Defense Systems business of Unisys Corporation in May 1995 ("Communications System --West"), and (ii) one business unit purchased by Lockheed Martin as part of its acquisition of the aerospace business of General Electric Company in April 1993 ("Communication Systems -- East"). Collectively, the Loral Acquired Businesses and Communications Systems -- East comprise the "Predecessor Company" or "Businesses".

The Company acquired the assets of the Ocean Systems business ("Ocean Systems") of Allied Signal, Inc., ILEX Systems ("ILEX") and Satellite Transmission Systems division ("STS") of California Microwave, Inc. on March 30, 1998, March 4, 1998 and February 5, 1998, respectively.

RESULTS OF OPERATIONS

The following information should be read in conjunction with the Company's Condensed Consolidated Financial Statements and Consolidated (Combined) Financial Statements and the notes thereto included herein.

The financial statements reflect the Company's results of operations from the effective date of the L-3 Acquisition, April 1, 1997.

The Predecessor Company's results of operations is for the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995 which include the results of operations of the Loral Acquired Businesses beginning on April 1, 1996, the effective date of that acquisition by Lockheed Martin. Therefore, the results of operations for the year ended December 31, 1996 reflect the results of operations of the Loral Acquired Businesses for the nine months from April 1, 1996 to December 31, 1996. Accordingly, changes between periods for the year ended December 31, 1997 and the year ended December 31, 1996 of the Predecessor Company are significantly affected by the timing of the L-3 Acquisition and Loral Acquired Businesses acquisition. The results of operations for the year ended December 31, 1995 and the period from January 1 to March 31, 1996 only comprise the results of operations of Communications Systems -- East. Operating income of the Company and the Predecessor Company are not directly comparable between periods indicated as a result of the effects of valuation of assets and liabilities recorded in accordance with Accounting Principles Board Opinion No. 16 ("APB 16") by the Company and the Predecessor Company, in the purchase accounting for the L-3 Acquisition and Loral Acquired Businesses acquisition. Interest expense and income taxes expense for the periods are also not comparable and the impact of interest expense and income tax expense on the Company is discussed below.

As indicated in Note 6 to the Consolidated (Combined) Financial Statements as of December 31, 1997, effective April 1, 1997 the Company has accounted for the sale of its Hycor business in accordance with FASB Emerging Issues Task Force Issue No. 87-11 "Allocation of Purchase Price to Assets to Be Sold". Accordingly, the results of operations of the Hycor business are not included in the results of operations of the Company for the three months ended March 31, 1998 and the nine months ended December 31, 1997. Hycor is a business unit of the Loral Acquired Businesses, and, accordingly, Hycor is only included in the results of operations of the Predecessor Company beginning on April 1, 1996, the effective date of the Loral Acquired Businesses acquisition by Lockheed Martin. On January 29, 1998, the Company sold the Hycor business, excluding land and buildings, for $3.5 million in cash subject to adjustment based on final closing net assets.

The results of operations of the Predecessor Company for the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, include certain costs and expenses allocated by Lockheed Martin for corporate office expenses based primarily on the allocation methodology prescribed by government regulations pertaining to government contractors. Interest expense was allocated based on Lockheed Martin's actual weighted average consolidated interest rate applied to the portion of the beginning of the year invested equity deemed to be financed by consolidated debt based on Lockheed Martin's debt to equity ratio on such date. The provision (benefit) for income taxes was allocated to the Predecessor Company as if it were a separate taxpayer, calculated by applying statutory rates to reported pre-tax income after considering items that do not enter into the determination of taxable income and tax credits related to the Predecessor Company. Also, pension and post-employment benefit costs were allocated based on employee headcount. Accordingly, the results of operations and financial position hereinafter of the Predecessor Company may not be the same as would have occurred had the Predecessor Company been an independent entity.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996

The following table sets forth selected statement of operations data for the Company and the Predecessor Company for the periods indicated.

	COMPANY	PREDECESSOR COMPANY			
	NINE MONTHS ENDED DECEMBER 31, 1997	NINE MONTHS ENDED DECEMBER 31, 1996	THREE MONTHS ENDED MARCH 31, 1997	THREE MONTHS ENDED MARCH 31, 1996	YEAR ENDED DECEMBER 31, 1996
		($ IN MILLIONS)			
Sales	$546.5	$501.9	$158.9	$41.2	$543.1
Costs and expenses	490.6	459.9	151.0	39.5	499.4
Noncash compensation charge........	4.4	--	--	--	--
Operating income	51.5	42.0	7.9	1.7	43.7
Net interest expense	28.5	22.2	8.4	2.0	24.2
Income (loss) before income taxes	23.0	19.8	(0.5)	(0.3)	19.5
Income tax provision (benefit) ...	10.7	7.6	(0.2)	0.2	7.8
Net income (loss)..................	12.3	12.2	(0.3)	(0.5)	11.7

Sales for the nine months ended December 31, 1997 as compared to the corresponding period in 1996 increased by $44.6 million, of which $30.5 million is attributable to the Loral Acquired Businesses and $14.1 million to Communication Systems -- East. The increase in sales is attributable to increased volume in sales of microwave components, CHBDL, UAV programs, F-14 display system contract, power supplies and P3-C Repair Depot.

Operating income for the nine months ended December 31, 1997 as compared to the corresponding period in 1996 increased by $9.5 million. The net increase was comprised of increases of $5.8 million attributable to the Loral Acquired Businesses and $8.1 million to Communication Systems -- East, partially offset by a nonrecurring, noncash compensation charge of $4.4 million recorded effective April 1, 1997, related to the initial capitalization of L-3. The increase in operating income for the nine months ended December 31, 1997 is attributable to increased sales, improved operating performance on sales of aviation recorders, passive microwave components and display systems, the GEMnet product-line and P3-C Repair Depot sales, partially offset by $3.3 million of cost of sales related to ongoing certification efforts for the Company's Explosive Detection System ("EDS") contract and lower sales volume on the U-2 Program.

Sales and operating income for the three months ended March 31, 1997 increased by $117.7 million and $6.2 million, respectively, as compared to the corresponding period in 1996. The increases are attributable to the acquisition of the Loral Acquired Businesses, offset by losses incurred on three programs by Communication Systems -- East.

Sales and operating income of the Hycor business included in the Predecessor Company's results of operations for the three months ended March 31, 1997 and the year ended December 31, 1996 were $1.8 million and $0.0 million, and $7.5 million and $0.3 million, respectively.

Net interest expense for the nine months ended December 31, 1997 was $28.5 million representing interest expense on the Company's outstanding borrowings (see Note 8 to Consolidated (Combined) Financial Statements as of December 31, 1997), and amortization of debt issuance costs, less interest income of $1.4 million and interest expense of $0.6 million allocated to the Hycor business net assets held for sale. Interest expense for the three months ended March 31, 1997 and the year ended December 31, 1996 was $8.4 million and $24.2 million, respectively, and was allocated to the Predecessor Company by applying Lockheed Martin's weighted average consolidated interest rate to the portion of the Predecessor Company's invested equity account deemed to be financed by Lockheed Martin's consolidated debt. The increase in interest expense reflects higher interest rates on the third party debt, as compared to the interest rate utilized to calculate interest expense by the Predecessor Company.

The income tax provision for the nine months ended December 31, 1997 reflects the Company's effective income tax rate of 46.5%, which was significantly impacted by the noncash compensation charge of $4.4 million which is not deductible for income tax purposes. For the three months ended March 31, 1997 and in the prior period, income taxes were allocated to the Predecessor Company by Lockheed Martin and the effective income tax rate was significantly impacted by amortization of costs in excess of net assets acquired, which were not deductible for income tax purposes. See Note 11 to Consolidated (Combined) Financial Statements as of December 31, 1997.

SUPPLEMENTAL ANALYSIS OF ANNUAL RESULTS OF OPERATIONS OF THE COMPANY AND THE PREDECESSOR COMPANY

As noted above, the Company's financial statements reflect operations since the effective date of the L-3 Acquisition, April 1, 1997, and the results of operations for the year ended December 31, 1996 represent the results of operations of the Predecessor Company, and include the results of operations of the Loral Acquired Businesses beginning on April 1, 1996, the effective date of that acquisition. Accordingly, changes between periods for the year ended December 31, 1997 to the year ended December 31, 1996 of the Predecessor Company are significantly affected by the timing of these acquisitions. To enable investors to better assess the trends in the results of operations and to facilitate comparisons, the following presentation of results of operations for the year ended December 31, 1997 were obtained by aggregating, without adjustment, the historical results of operations of the Predecessor Company for the period from January 1, 1997 through March 31, 1997 with the historical results of operations of the Company for the nine months period from April 1, 1997 through December 31, 1997 (the "1997 period"), and the results of operations for the year ended December 31, 1996 were obtained by aggregating, without adjustments, the historical results of operations of the Predecessor Company for the year ended December 31, 1996 with the historical results of operations of the Loral Acquired Businesses for the period from January 1, 1996 through March 31, 1996 (the "1996 period"). All the historical results were derived from the audited financial statements for respective periods included herein.

The following table sets forth historical selected statement of operations data for the Company, Predecessor Company and the Loral Acquired Businesses for the periods indicated and the related calendar year results of operation data derived therefrom.

	COMPANY	PREDECESSOR COMPANY		PREDECESSOR COMPANY	LORAL ACQUIRED BUSINESSES	
	NINE MONTHS ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	1997 PERIOD	YEAR ENDED DECEMBER 31, 1996	THREE MONTHS ENDED MARCH 31, 1996	1996 PERIOD
			($ IN MILLIONS)			
Sales................	$546.5	$158.9	$705.4	$543.1	$132.2	$675.3
Costs and expenses ..	490.6	151.0	641.6	499.4	124.4	623.8
Noncash compensation charge.............	4.4	--	4.4	--	--	--
Operating income	$ 51.5	$ 7.9	$ 59.4	$ 43.7	$ 7.8	$ 51.5
EBITDA(1)	$ 78.1	$ 15.7	$ 93.8	$ 71.8	$ 12.8	$ 84.6

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(1) EBITDA is defined as operating income plus depreciation expense and amortization expense (excluding the amortization of debt issuance costs) and the nonrecurring, noncash compensation charge. EBITDA is not a substitute for operating income, net income or cash flows from operating activities as determined in accordance with generally accepted accounting principles as a measure of profitability or liquidity. EBITDA is presented as additional information because the Company believes it to be a useful indicator of the Company's ability to meet debt service and capital expenditure requirements.

Sales for the 1997 period increased to $705.4 million from $675.3 million for the 1996 period. Operating income increased to $63.1 million in the 1997 period from $51.5 million in the 1996 period. Operating income is not directly comparable between the periods as a result of the effects of valuation of assets and liabilities in accordance with Accounting Principles Opinion No. 16.

The sales increase in the 1997 period was primarily attributable to sales of the Loral Acquired Businesses which increased by $18.1 million to $531.4 million in the 1997 period as compared to $513.3 million in the 1996 period. This sales increase was primarily attributable to increased sales volume on E2-C antenna program, the E2-C and F-14 display systems and passive microwave components, additional production and shipments on CHBDL and UAV programs, and partially offset by lower sales volume on the U-2 Program. Additionally, sales of Communication Systems --East increased by $12.0 million to $174.0 million in the current period from $162.0 million in the 1996 period, and were primarily attributable to increased sales of power supplies, the GEMnet product line and the P3-C Repair Depot.

Operating income increased by $7.9 million or 15.3% to $59.4 million in the 1997 period from $51.5 million in the 1996 period. Operating income as a percentage of sales increased to 8.4% in the 1997 period as compared to 7.6% in the 1996 period. The increase in operating income was largely attributable to cost reductions, increased sales volume of the Loral Acquired Businesses and operating improvements at Communications Systems -- East. Operating income for the 1997 period also included (i) a nonrecurring, noncash compensation charge of $4.4 million recorded effective April 1, 1997, related to the initial capitalization of L-3 and (ii) fourth quarter cost of sales of $3.3 million related to on-going certification efforts for the Company's EDS contract. Excluding the noncash compensation charge and these EDS costs, operating income would have been $67.1 million for the 1997 period and operating income as a percentage of sales would have been 9.5%.

EBITDA for the 1997 period increased by $9.2 million to $93.8 million from $84.6 million from the 1996 period. EBITDA margin increased to 13.3% for the 1997 period from 12.5% for the 1996 period. The increases in EBITDA and EBITDA margin were attributable to the items affecting the trends in operating income between the 1997 period and 1996 period discussed above.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

The following table sets forth selected statement of operations data for the Predecessor Company for the periods indicated.

	PREDECESSOR COMPANY YEAR ENDED DECEMBER 31,	
	1996	1995
	($ IN MILLIONS)	
Sales	$543.1	$166.8
Costs and expenses	499.4	162.1
Operating income	43.7	4.7
Net interest expense	24.2	4.5
Income before income taxes	19.5	0.2
Income tax provision	7.8	1.2
Net income (loss)	11.7	(1.0)

The results of operations of the Loral Acquired Businesses are reflected in the results of operations of the Predecessor Company beginning on April 1, 1996, the effective date of that acquisition by Lockheed Martin. During 1996, sales increased to $543.1 million from $166.8 million in 1995. Operating income increased to $43.7 million compared with $4.7 million in 1995. Net income increased to $11.7 million as compared to a net loss of $1.0 million in 1995. The Loral Acquired Businesses contributed $13.6 million to net income for the year ended December 31, 1996.

The sales increase in 1996 was attributable to the sales of the Loral Acquired Businesses which contributed $381.1 million of the increase. Sales of Communication Systems -East decreased in 1996 by $4.8 million as compared to 1995 primarily due to lower volume on Aegis power supplies and SIGINT system production, partially offset by Local Management Device/Key Processor ("LMD/KP") production startup.

The increase in 1996 operating income was largely attributable to the Loral Acquired Businesses, which contributed $36.9 million of the increase. Communication Systems -East operating income in 1996 increased $2.2 million primarily due to improved operating performance on the Shipboard Telephone Communications ("STC-2") program partially offset by increased costs on the Space Station contract. As a percentage of sales, operating income increased to 8.0% from 2.8%. This increase is attributable to the improvement in Communication Systems -- East noted above, higher contract margins and operating improvements in the Loral Acquired Businesses.

Allocated interest expense increased to $24.2 million in 1996 from $4.5 million in 1995 due primarily to the acquisition of the Loral Acquired Businesses, which was assumed to be fully financed by debt, coupled with a higher debt-to-equity ratio used in the allocation for Communication Systems - -- East. See Note 9 to Consolidated (Combined) Financial Statements.

The effective income tax rate declined to 40% in 1996 as compared to 681% in 1995. The 1995 effective rate was significantly impacted by non-deductible amortization of costs in excess of net assets acquired. As a percentage of income subject to tax, such amortization declined significantly in 1996.

LIQUIDITY AND CAPITAL RESOURCES

THE L-3 ACQUISITION

Effective April 1, 1997, the Company purchased the Businesses from Lockheed Martin for $503.8 million, after a purchase price adjustment of $21.2 million and acquisition costs of $8.0 million. On November 5, 1997 the L-3 Acquisition Agreement was amended to finalize the purchase price adjustment which amounted to $21.2 million of which $15.9 million was received on April 30, 1997 and $5.3 million was received on November 7, 1997, plus interest thereon. The amendment also included the assumption by the Company of Lockheed Martin's rights and obligations under a contract for the U.S. Army's Command and Control Vehicle ("C(2)V") Mission Module Systems ("MMS"), for which the Company received a cash payment of $12.2 million from Lockheed Martin.

FINANCING

The L-3 Acquisition was funded by a combination of debt and equity aggregating $525.0 million. The equity of $125.0 million was comprised of $80.0 million in cash contributed to Holdings by the Lehman Partnership and Senior Management and a $45.0 million retained interest in Holdings by Lockheed Martin representing partial consideration to Lockheed Martin for its sale of the Businesses to the Company. In connection with the L-3 Acquisition, the Company entered into a $275.0 million credit facility consisting of $175.0 million of term loans (the "Term Loan Facilities") and a $100.0 million revolving credit facility (the "Revolving Credit Facility") (collectively, the "Senior Credit Facilities"). The initial debt balance of $400.0 million consisted of $175.0 million of borrowings under the Term Loan Facilities and $225.0 million of 10 3/8% Senior Subordinated Notes (the "1997 Notes") due May 1, 2007.

The required principal payments under the Term Loans Facilities are: $5.0 million in 1998, $11.0 million in 1999, $19.0 million in 2000, $25.0 million in 2001, $33.2 million in 2002, $20.0 million in 2003, and $25.2 million in 2004, $24.9 million in 2005, and $8.7 million in 2006. Interest payments on the Term Loan Facilities vary in accordance with the type of borrowings and are made at a minimum every three months. At December 31, 1997, the Senior Credit Facilities also included a $100.0 million Revolving Credit Facility. In February 1998, the Senior Credit Facilities were amended to, among other things, increase the amount available under the revolving credit facility to $200.0 million, waive certain excess cash flow prepayments, as defined, otherwise required, and permit the incurrence of up to an additional $150.0 million of subordinated debt. Other than upon a change of control or the occurrence of certain asset sales, L-3 Communications will not be required to repurchase the 1997 Notes until maturity on May 1, 2007. L-3 Communications is required to make semi-annual interest payments with respect to the 1997 Notes.

The Company has a substantial amount of indebtedness. Based upon the current level of operations, management believes that the Company's cash flow from operations, together with available borrowings under the Revolving Credit Facility, will be adequate to meet its anticipated requirements for working capital, capital expenditures, research and development expenditures, program and other discretionary investments, interest payments and scheduled principal payments for the foreseeable future including at least the next three years. There can be no assurance, however, that the Company's business will continue to generate cash flow at or above current levels or that currently anticipated improvements will be achieved. If the Company is unable to generate sufficient cash flow from operations in the future to service its debt, it may be required to sell assets, reduce capital expenditures, refinance all or a portion of its existing debt or obtain additional financing. The Company's ability to make scheduled principal payments, to pay interest on or to refinance its indebtedness depends on its future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the defense industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond its control. There can be no assurance that sufficient funds will be available to enable the Company to service its indebtedness, including the 1997 Notes, or make necessary capital expenditures and program and discretionary investments.

On November 5, 1997, L-3 Communications completed its exchange offer relating to the 1997 Notes and the holders of the 1997 Notes received registered securities. The 1997 Notes are redeemable at the option of L-3 Communications, in whole or in part, at any time on or after May 1, 2002, at various redemption prices plus accrued and unpaid interest to the applicable redemption date. In addition, prior to May 1, 2000, L-3 Communications may redeem up to 35% of the aggregate principal amount of the 1997 Notes at a redemption price of 109.375% of the principal amount thereof, plus accrued and unpaid interest to the redemption date with the net cash proceeds of one or more equity offerings by Holdings that are contributed to L-3 Communications as common equity capital. See "Risk Factors -- Substantial Leverage".

The Senior Credit Facilities and the 1997 Notes contain financial covenants, which remain in effect so long as any amount is owed thereunder by L-3 Communications. The financial covenants under the Senior Credit Facilities require that (i) L-3 Communications' debt ratio, as defined, be less than or equal to 5.50 for the quarter ended December 31, 1997, and that the maximum allowable debt ratio, as defined, thereafter be further reduced to less than or equal to 3.1 for the quarters ending after June 30, 2002, and (ii) L-3 Communications' interest coverage ratio, as defined, be at least 1.85 for the quarter ended December 31, 1997, and thereafter increasing the interest coverage ratio, as defined, to at least 3.10 for any fiscal quarters ending after June 30, 2002. At December 31, 1997, L-3 Communications was and has been in compliance with these covenants at all times.

On February 27, 1998, the Company filed a registration statement with the Securities and Exchange Commission ("SEC") for the sale of $150.0 million aggregate principal amount of Senior Subordinated Notes due 2008 (the "Notes Offering"), and concurrently with the Notes Offering, Holdings filed a registration statement with the SEC for the sale of common stock for a proposed maximum aggregate offering price of $100.0 million (the "Common Stock Offering").

To mitigate risks associated with changing interest rates on certain of its debt, the Company entered into the interest rate cap and floor contracts (the "interest rate agreements"). The Company manages exposure to counterparty credit risk by entering into the interest rate agreements only with major financial institutions that are expected to perform fully under the terms of such agreements. Cash payments to (from) the Company and the counterparties are made at the end of the quarter to the extent due under the terms of the interest rate agreements. Such payments are recorded as adjustments to interest expense. The initial costs of the interest rate agreements are capitalized as deferred debt issuance costs and amortized into interest expense. The impact of the interest rate agreements on interest expense was not material for the nine months ended December 31, 1997. See Note 10 to the Consolidated (Combined) Financial Statements.

1998 ACQUISITIONS

On March 30, 1998, the Company purchased the assets of Ocean Systems for $67.5 million of cash. On March 4, 1998, the Company purchased the assets of ILEX for $51.9 million of cash, subject to adjustment based on closing net assets, and additional consideration based on post-acquisition performance of ILEX. On February 5, 1998, the Company purchased the assets of STS for $27.0 million in cash, subject to adjustment based upon closing net assets.

The Company financed the 1998 Acquisitions using cash on hand and borrowings under the Revolving Credit Facility.

The Company considers and executes strategic acquisitions on an ongoing basis and may be evaluating acquisitions or engaged in acquisition negotiations at any given time. As of the date hereof, the Company has completed, has reached agreement on or is in discussions regarding certain acquisitions, in addition to the 1998 Acquisitions, that are either individually or in the aggregate not material to the financial condition of results of operations of the Company.

CASH FLOWS

YEAR ENDED DECEMBER 31, 1997 COMPARED WITH YEARS ENDED DECEMBER 31, 1996 AND 1995

The following table sets forth selected cash flow statement data for the Company and the Predecessor Company for the periods indicated:

	COMPANY	PREDECESSOR COMPANY	PREDECESSOR COMPANY	
	NINE MONTHS ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	YEAR ENDED DECEMBER 31, 1996	1995
	($ IN MILLIONS)			
Net cash from (used in) operating activities.................................	$ 73.9	$(16.3)	$ 30.7	$ 9.3
Net cash (used in) investing activities	(457.8)	(4.3)	(298.0)	(5.5)
Net cash from (used in) financing activities.................................	461.4	20.6	267.3	(3.8)

NET CASH FROM (USED IN) OPERATING ACTIVITIES: Cash provided by operating activities of the Company for the nine months ended December 31, 1997 was $73.9 million. Cash provided by operations benefited from improved operating results, effective management of contracts in process and increases in accrued employment costs. Contracts in process declined by $18.2 million to $167.2 million from April 1, 1997 to December 31, 1997, and was primarily attributable to collections of and reductions in the levels of commercial and affiliate receivables.

Net cash used in operating activities of the Predecessor Company was $16.3 million for the quarter ended March 31, 1997, resulting primarily from the increase in contracts in process and decrease in current liabilities. Cash flows used by the Loral Acquired Businesses was 10.2 million. Cash used for operating activities by Communication Systems -- East amounted to $6.1 million.

Cash provided by operating activities of the Predecessor Company was $30.7 million in 1996 and $9.3 million in 1995. The increase of $21.4 million in 1996 was due primarily to the impact of the Loral Acquired Businesses which were acquired by Lockheed Martin effective April 1, 1996. Earnings after adjustment for non-cash items provided $36.7 million, offset by changes in other operating assets and liabilities. Without the Loral Acquired Businesses, cash provided by operating activities for Communication Systems--East increased to $13.7 million in 1996, 46% over 1995.

The Company's current ratio at December 31, 1997 remained constant at 2.0: 1 as compared to the Predecessor Company's current ratio at December 31, 1996.

NET CASH (USED IN) INVESTING ACTIVITIES: Cash used in investing activities for the nine months ended December 31, 1997 consisted primarily of $466.3 million paid by the Company for the L-3 Acquisition (See Note 1 to Consolidated (Combined) Financial Statements); offset by proceeds from the sale of the Company's Sarasota, Florida property of approximately $9.5 million and cash received in connection with the assumption of obligations under the C(2)V MMS contract from Lockheed Martin of $12.2 million. During the year ended December 31, 1996, $287.8 million was paid by the Predecessor Company for the acquisition of the Loral Acquired Businesses. See Note 4 to the Consolidated (Combined) Financial Statements. In addition, for the nine months ended December 31, 1997 and the three months ended March 31, 1997, $11.9 million and $4.3 million, respectively, was used for capital expenditures, and $5.1 million and $0.0, respectively, for purchase of investments. The Company typically makes capital expenditures related primarily to improvement of manufacturing facilities and equipment. The Company expects that its capital expenditures for 1998 will be approximately $27.0 million.

All transactions between the Businesses and Lockheed Martin have been accounted as settled in cash at the time such transactions were recorded by the Businesses. Accordingly, in 1996, cash flows reflect the purchase of the Loral Acquired Businesses.

NET CASH FROM (USED IN) FINANCING ACTIVITIES: Cash from financing activities of the Company was $461.4 million for the nine months ended December 31, 1997, and was due to the debt incurred and proceeds from the issuance of common stock which were issued to finance the L-3 Acquisition. See "--Financing" above. Net cash from financing activities also reflects the payment of debt issue costs of $15.6 million and $3.0 million of scheduled debt payments of the Term Loan Facilities.

Prior to the L-3 Acquisition, the Businesses participated in the Lockheed Martin cash management system, under which all cash was received and all payments were made by Lockheed Martin. For purposes of the statements of cash flows, all transactions with Lockheed Martin were deemed to have been settled in cash at the time they were recorded by the Predecessor Company. Net cash from (used in) financing activities of the Predecessor Company for the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, were approximately $20.6 million, $267.3 million and ($3.8) million, respectively, and represent advances from (repayments to) Lockheed Martin, the Predecessor Company's parent company.

BACKLOG

The Company's funded backlog at December 31, 1997 totaled $516.9 million, as compared with the Predecessor Company's funded backlog at December 31, 1996 of $542.5 million. Funded orders, on a pro forma basis, for the Company for 1997 were $711.5 million. The Predecessor Company's funded orders for 1996 were $619.5 million. It is expected that 86.0% of the backlog at December 31, 1997 will be recorded as sales during 1998. However, there can be no assurance that the Company's backlog will become revenues in any particular period, if at all. See "Risk Factors -- Backlog". Approximately 81% of the total backlog at December 31, 1997 was directly or indirectly for defense contracts for end use by the Government. Approximately $434.0 million of total backlog was directly or indirectly for U.S. and foreign government defense contracts, and approximately $19.5 million of total backlog was directly or indirectly for U.S. and foreign government non-defense contracts. Foreign customers account for approximately $34.6 million of the total backlog.

RESEARCH AND DEVELOPMENT

Research and development, including bid and proposal, costs ("R&D costs") sponsored by the Company was $28.9 million for the nine months ended December 31, 1997. R&D costs sponsored by the Predecessor Company were $12.0 million, $36.5 million and $9.8 million for the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, respectively. The Loral Acquired Businesses sponsored R&D costs of $5.6 million for the three months ended March 31, 1996 and $21.4 million for the year ended December 31, 1995. Accordingly, the Company, Predecessor Company and the Loral Acquired Businesses, in the aggregate, sponsored R&D costs of $40.9 million, $42.1 million and $31.2 million, respectively, for the years ended December 31, 1997, 1996 and 1995. Customer-funded research and development was $117.1 million in 1997, as compared with $153.5 million for 1996. The decrease in customer-funded research and development in 1997 is due primarily to research and development programs existing in 1996 which moved into the production phase during 1997.

CONTINGENCIES

See Note 13 to the Consolidated (Combined) Financial Statements as of December 31, 1997.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 131, "Disclosure about Segments of an Enterprise and Related

Information". SFAS No. 131 establishes accounting standards for the way that public business enterprises report information about operating segments and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits". SFAS No. 132 revises employers' disclosures about pension and other postretirement benefits plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when SFAS No. 87 "Employers' Accounting for Pensions", SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" were issued. SFAS 132 suggests combined formats for presentation of pension and other postretirement benefits disclosures. The Company is currently evaluating the impact, if any, of SFAS No. 131 and SFAS No. 132.

INFLATION

The effect of inflation on the Company's sales and earnings has not been significant. Although a majority of the Company's sales are made under long-term contracts, the selling prices of such contracts, established for deliveries in the future, generally reflect estimated costs to be incurred in these future periods. In addition, some contracts provide for price adjustments through escalation clauses.

YEAR 2000 CONVERSION

Under the Company's decentralized structure, each division maintains and/or outsources its computer-based data processing functions. While each division is responsible for its own computer-based functions, in late 1997 a corporate-wide Year 2000 program (the "Program") was instituted for purposes of overseeing Year 2000 compliance efforts. The Program's major phases include (i) identification of areas requiring update, which began in late 1997; (ii) assessment of required actions and related impacts, which commenced in the first quarter of 1998; (iii) development of update schedule and cost estimates, which is scheduled to be concluded in the second quarter of 1998 and (iv) implementation of such plan, including follow-up testing, which is scheduled to commence during the second quarter of 1998 and be completed by mid-1999. Through December 31, 1997, the costs incurred in connection with the Program were not material. While these cost estimates have not been finalized, based upon the type of systems employed by the Company, costs of the Program are not expected to be material to the results of operations, liquidity or capital resources of the Company.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

L-3 COMMUNICATIONS CORPORATION
(and the Predecessor Company)

Consolidated (Combined) Financial Statements as of December 31, 1997 and 1996 and for the nine months ended December 31, 1997, the three months ended March 31, 1997 and the years ended December 31, 1997 and 1996.

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of
L-3 Communications Corporation:

We have audited the accompanying (i) consolidated balance sheet of L-3 Communications Corporation and subsidiaries (the "Company") as of December 31, 1997, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for the nine months then ended, (ii) the combined statements of operations and cash flows of the Predecessor Company, as defined in Note 1 to the financial statements, for the three months ended March 31, 1997 and (iii) combined balance sheet of the Predecessor Company, as of December 31, 1996 and the related combined statements of operations, changes in invested equity and cash flows for the year then ended. 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 did not audit the 1996 financial statements of the Lockheed Martin Communications Systems Division, which statements reflect total assets and sales constituting 35 percent and 30 percent of the related combined totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Communications Systems Division for 1996, is based solely on the report of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above (i) present fairly, in all material respects, the consolidated financial position of the Company and subsidiaries as of December 31, 1997 and their consolidated results of operations and cash flows for the nine months then ended, and (ii) based on our audit and the report of other auditors for 1996, present fairly in all material respects, the combined financial position of the Predecessor Company as of December 31, 1996 and their combined results of operations, and cash flows for the year then ended and the three months ended March 31, 1997, in conformity with generally accepted accounting principles.

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

1301 Avenue of the Americas
New York, New York 10019
February 2, 1998

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Lockheed Martin Corporation

We have audited the combined balance sheet of Lockheed Martin Communications Systems Division, as defined in Note 1 to the financial statements, as of December 31, 1996, and the related combined statements of operations, changes in shareholders' equity and invested equity, and cash flows for the two years in the period ended December 31, 1996. These financial statements are the responsibility of the Division's and Lockheed Martin 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, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Lockheed Martin Communications Systems Division at December 31, 1996 (not presented separately herein), and the combined results of its operations and its cash flows for the year ended December 31, 1996 (not presented separately herein), and the results of its operations and its cash flows for the period ended December 31, 1995, in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Washington, D.C.
March 7, 1997

L-3 COMMUNICATIONS CORPORATION
CONSOLIDATED (COMBINED) BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	COMPANY CONSOLIDATED DECEMBER 31, 1997	PREDECESSOR COMPANY COMBINED DECEMBER 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	$ 77,474	--
Contracts in process	167,202	$198,073
Net assets held for sale	6,653	--
Deferred income taxes	13,298	--
Other current assets	2,750	3,661
Total current assets	267,377	201,734
Property, plant and equipment	95,034	116,566
Less, accumulated depreciation and amortization	12,025	24,983
	83,009	91,583
Intangibles, primarily cost in excess of net assets acquired, net of amortization	297,503	282,674
Deferred income taxes	24,217	--
Other assets	31,298	17,307
Total assets	$703,404	$593,298
LIABILITIES AND SHAREHOLDERS' (INVESTED) EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 5,000	--
Accounts payable, trade	33,052	$ 35,069
Accrued employment costs	31,162	27,313
Customer advances	15,989	3,381
Amounts in excess of costs incurred	18,469	10,918
Accrued interest	4,419	--
Other current liabilities	27,476	26,207
Total current liabilities	135,567	102,888
Pension and postretirement benefits	38,113	--
Other liabilities	5,009	16,801
Long-term debt	392,000	--
Commitments and contingencies		
Shareholders' equity		
Common Stock, $.01 par value; 100 shares authorized and outstanding	--	--
Additional paid-in capital	129,410	--
Retained earnings	12,305	--
Deemed distribution	(9,000)	--
Total shareholders' and invested equity	132,715	473,609
Total liabilities and shareholders' and invested equity	$703,404	$593,298

See notes to consolidated (combined) financial statements.

L-3 COMMUNICATIONS CORPORATION
CONSOLIDATED (COMBINED) STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	COMPANY CONSOLIDATED	PREDECESSOR COMPANY COMBINED		
	NINE MONTHS ENDED	THREE MONTHS ENDED	YEAR ENDED DECEMBER 31,	
	DECEMBER 31, 1997	MARCH 31, 1997	1996	1995
Sales	$546,525	$158,873	$543,081	$166,781
Costs and expenses	490,669	150,937	499,390	162,132
Noncash compensation charge........	4,410	--	--	--
Operating income	51,466	7,936	43,691	4,649
Interest income	1,430	--	--	--
Interest expense	29,884	8,441	24,197	4,475
Income (loss) before income taxes	22,992	(505)	19,494	174
Income tax expense (benefit)	10,687	(247)	7,798	1,186
Net income (loss)	$ 12,305	$ (258)	$ 11,696	$ (1,012)

See notes to consolidated (combined) financial statements.

L-3 COMMUNICATIONS CORPORATION
CONSOLIDATED (COMBINED) STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND INVESTED EQUITY
FOR THE NINE MONTHS ENDED DECEMBER 31, 1997, THREE MONTHS ENDED MARCH 31, 1997 AND YEARS ENDED DECEMBER 31, 1996 AND 1995
(IN THOUSANDS EXCEPT SHARE DATA)

	PREDECESSOR COMPANY COMBINED	COMPANY CONSOLIDATED					
		COMMON STOCK					
	INVESTED EQUITY	SHARES ISSUED	PAR VALUE	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	EQUITY ADJUSTMENTS	TOTAL
Balance January 1, 1995 ...	$199,506						
Repayments to Lockheed Martin..................	(3,831)						
Net loss.................	(1,012)						
Balance December 31, 1995 .	194,663						
Advances from Lockheed Martin..................	267,250						
Net income...............	11,696						
Balance December 31, 1996 .	473,609						
Advances from Lockheed Martin..................	20,579						
Net loss.................	(258)						
Balance March 31, 1997	$493,930						
Shares Issued............		100	$--	$125,000			$125,000
Noncash compensation charge				4,410			4,410
Deemed distribution.......						$(9,000)	(9,000)
Net Income...............					$12,305		12,305
Balance December 31, 1997 .		100	$--	$129,410	$12,305	$(9,000)	$132,715

See notes to consolidated (combined) financial statements.

L-3 COMMUNICATIONS CORPORATION
CONSOLIDATED (COMBINED) STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	COMPANY	PREDECESSOR COMPANY		
	NINE MONTHS ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	YEAR ENDED DECEMBER 31, 1996	1995
OPERATING ACTIVITIES:				
Net income (loss)	$ 12,305	$ (258)	$ 11,696	$(1,012)
Depreciation and amortization	22,190	7,786	28,139	11,578
Noncash compensation charge	4,410	--	--	--
Amortization of deferred debt issuance costs	1,517	--	--	--
Deferred income taxes	9,991	--	--	--
Changes in operating assets and liabilities, net of amounts acquired				
Contracts in process	18,161	(17,475)	23,543	(3,267)
Other current assets	(275)	(481)	3,049	788
Other assets	2,141	(761)	(8,346)	1,245
Accounts payable	(6,146)	(207)	4,104	(648)
Accrued employment costs	6,363	(625)	2,282	(611)
Customer advances	(611)	1,146	(5,541)	--
Amounts in excess of costs incurred	1,156	(3,037)	(6,045)	(2,041)
Accrued interest	4,419	--	--	--
Other current liabilities	(7,132)	(1,867)	3,180	4,004
Pension and postretirement benefits	4,284	--	--	--
Other liabilities	1,087	(500)	(25,327)	(699)
Net cash from (used in) operating activities	73,860	(16,279)	30,734	9,337
INVESTING ACTIVITIES:				
Acquisition of business	(466,317)	--	(287,803)	--
Proceeds from assumption of contract obligation	12,176	--	--	--
Net cash from assets held for sale	3,179	--	--	--
Proceeds from sale of property	9,458	--	--	--
Purchases of investments	(5,113)	--	--	--
Capital expenditures	(11,934)	(4,300)	(13,528)	(5,532)
Disposition of property, plant and equipment	771	--	3,347	26
Net cash (used in) investing activities	(457,780)	(4,300)	(297,984)	(5,506)
FINANCING ACTIVITIES:				
Borrowings under senior credit facility	175,000	--	--	--
Proceeds from sale of 10 3/8% senior subordinated notes	225,000	--	--	--
Proceeds from issuance of common stock	80,000	--	--	--
Debt issuance costs	(15,606)	--	--	--
Payment of debt	(3,000)	--	--	--
Advances from (repayments to) Lockheed Martin	--	20,579	267,250	(3,831)
Net cash from (used in) financing activities	461,394	20,579	267,250	(3,831)
Net change in cash	77,474	--	--	--
Cash and cash equivalents, beginning of the period	--	--	--	--
Cash and cash equivalents, end of the period	$ 77,474	$ --	$ --	$ --

See notes to consolidated (combined) financial statements.

1. BASIS OF PRESENTATION AND DESCRIPTION OF BUSINESS

The accompanying consolidated financial statements include the assets, liabilities and results of operations of L-3 Communications Corporation, Inc., successor company, ("L-3" or the "Company"), a wholly owned subsidiary of L-3 Communications Holdings, Inc. ("Holdings") following the change in ownership (see Note 2) effective as of April 1, 1997 and for the period from April 1, 1997 to December 31, 1997. Prior to April 1, 1997, the statements comprise substantially all of the assets and liabilities and results of operations of (i) nine business units previously purchased by Lockheed Martin Corporation ("Lockheed Martin") as part of its acquisition of Loral Corporation ("Loral") in April 1996 (the "Loral Acquired Businesses"), and (ii) one business unit, Communications Systems -- East purchased by Lockheed Martin as part of its acquisition of the aerospace business of GE in April 1993 (collectively, the "Businesses" or the "Predecessor Company"). The combined financial statements of the Predecessor Company reflect the Businesses' assets, liabilities and results of operations included in Lockheed Martin's historical financial statements. Intercompany accounts between Lockheed Martin and the Businesses have been included in Invested Equity. The assets and operations of the semiconductor product line and certain other facilities which are not material have been excluded from the combined financial statements. Significant intercompany and inter-business transactions and balances have been eliminated.

The Company is a supplier of sophisticated secure communication systems and specialized communication products including secure, high data rate communication systems, microwave components, avionics, recorders, telemetry and space products. The Company's customers include the Department of Defense (the "DoD"), selected U.S. government intelligence agencies, major aerospace/defense prime contractors and commercial customers. The Company operates primarily in one industry segment, electronic components and systems.

Substantially all the Company's products are sold to agencies of the U.S. Government, primarily the Department of Defense, to foreign government agencies or to prime contractors or subcontractors thereof. All domestic government contracts and subcontracts of the Businesses are subject to audit and various cost controls, and include standard provisions for termination for the convenience of the U.S. Government. Multi-year U.S. Government contracts and related orders are subject to cancellation if funds for contract performance for any subsequent year become unavailable. Foreign government contracts generally include comparable provisions relating to termination for the convenience of the government.

2. CHANGE IN OWNERSHIP TRANSACTION

Holdings and L-3 were formed by Mr. Frank C. Lanza, the former President and Chief Operating Officer of Loral, Mr. Robert V. LaPenta, the former Senior Vice President and Controller of Loral (collectively, the "Equity Executives"), Lehman Brothers Capital Partners III, L.P. and its affiliates (the "Lehman Partnership") and Lockheed Martin to acquire the Businesses. The Company was capitalized with an equity contribution from Holdings of $125,000.

On March 28, 1997, Lanza, LaPenta, the Lehman Partnership, L-3, and Lockheed Martin entered into a Transaction Agreement (the "L-3 Acquisition Agreement") whereby Holdings would acquire the Businesses from Lockheed Martin (the "L-3 Acquisition"). Also included in the acquisition is a semiconductor product line of another business and certain leasehold improvements in New York City which were not material. Pursuant to the L-3 Acquisition Agreement, L-3 acquired the Businesses from Lockheed Martin for $525,000, comprising $458,779 of cash, after a $21,221 reduction related to a purchase price adjustment, and $45,000 of common equity, representing a 34.9% interest in Holdings retained by Lockheed Martin, plus acquisition costs of $8,000.

The Company and Lockheed Martin finalized the purchase price adjustment pursuant to an amendment to the L-3 Acquisition Agreement dated November 5, 1997, which also included the assumption by the Company of Lockheed Martin's rights and obligations under a contract for the production of mission communication systems for track vehicles, for which the Company received cash of $12,176.

In connection with the L-3 Acquisition Agreement, Holdings and the Company anticipated entering into a transition services agreement with Lockheed Martin pursuant to which Lockheed Martin would provide to L-3 and its subsidiaries (and L-3 would provide to Lockheed Martin) certain corporate services of a type previously provided at costs consistent with past practices until December 31, 1997 (or, in the case of Communication Systems - -- East (formerly known as Communication Systems -- Camden), for a period of up to 18 months after the Closing). Lockheed Martin is providing L-3 the services contemplated by the proposed transaction services agreement in the absence of any executed agreement. The parties also entered into supply agreements which reflect previously existing inter-company work transfer agreements or similar support arrangements upon prices and other terms consistent with previously existing arrangements. Holdings, the Company and Lockheed Martin have entered into certain subleases of real property and cross-licenses of intellectual property.

Pursuant to the L-3 Acquisition Agreement the Company also assumed certain obligations relating to environmental liabilities and benefit plans.

In accordance with Accounting Principles Board Opinion No. 16, the acquisition of the Businesses by Holdings and L-3 has been accounted for as a purchase business combination effective as of April 1, 1997. The purchase cost (including the fees and expenses related thereto) was allocated to the tangible and intangible assets and liabilities of the Company based upon their respective fair values. The assets and liabilities recorded in connection with the purchase price allocation were $664,800 and $164,400, respectively. The excess of the purchase price over the fair value of net assets acquired of $303,200 was recorded as goodwill, and is being amortized on a straight-line basis over a period of 40 years. As a result of the 34.9% ownership interest retained by Lockheed Martin, the provisions of Emerging Issues Task Force Issue Number 88-16 were applied in connection with the purchase price allocation, which resulted in the recognition of a deemed distribution of $9,000.

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

Had the L-3 Acquisition occurred on January 1, 1996, the unaudited pro forma sales and net income for the years ended December 31, 1997 and 1996 would have been $703,600 and $11,890, and $663,200 and $5,290, respectively. The pro forma results, which are based on various assumptions, are not necessarily indicative of what would have occurred had the acquisition been consummated on January 1, 1996. The 1997 and 1996 pro forma sales and net income have been adjusted to (a) include the operations of the Loral Acquired Businesses from January 1, 1996 (Note 3) and (b) exclude the operations of the Hycor business net assets held for sale from January 1, 1996 (Note 6).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

STATEMENTS OF CASH FLOWS: Changes in operating assets and liabilities are net of the impact of acquisitions and final purchase price allocations. The Predecessor Company participated in Lockheed Martin's cash management system, under which all cash was received and payments were made by Lockheed Martin. All transactions between the Predecessor Company and Lockheed Martin have been accounted for as settled in cash at the time the transactions were recorded by the Predecessor Company.

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

Losses on contracts are recognized when determined. Revisions in profit estimates are reflected in the period, on a cumulative catch-up basis, in which the facts, requiring the revision, become known.

CONTRACTS IN PROCESS: Costs accumulated on contracts in process include direct costs, as well as manufacturing overhead, and for government contracts, general and administrative costs, independent research and development costs and bid and proposal costs. In accordance with industry practice, contracts in process contain amounts relating to contracts and programs with long performance cycles, a portion of which may not be realized within one year.

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

COST IN EXCESS OF NET ASSETS ACQUIRED: The excess of the cost of the L-3 Acquisition over the fair value of the net assets acquired is being amortized using a straight-line method over a 40 year period. Accumulated amortization of the Company amounted to $5,741 at December 31, 1997.

The carrying amount of cost in excess of net assets acquired is evaluated on a recurring basis. Current and future profitability as well as current and future undiscounted cash flows, excluding financing costs, of the acquired businesses are primary indicators of recoverability. For the nine months ended December 31, 1997, there was no reduction to the carrying amount of the cost in excess of net assets acquired resulting from these evaluations.

PREDECESSOR COMPANY INTANGIBLES: Intangibles, primarily the excess of the cost of Businesses over the fair value of the net assets acquired, was amortized using a straight-line method primarily over a 40-year period. Other intangibles were amortized over their estimated useful lives which range from 11 to 15 years. Amortization expense of the Businesses was $2,655 for the three months ended March 31, 1997; $10,115 and $6,086 for the years ended December 31, 1996 and 1995, respectively. Accumulated amortization was $26,524 at December 31, 1996.

Intangibles of the Predecessor Company include costs allocated to the Businesses relating to the Request for Funding Authorization ("RFA"), consisting of over 20 restructuring projects to reduce operating costs, initiated by General Electric ("GE") Aerospace in 1990 and to the REC Advance Agreement ("RAA"), a restructuring plan initiated after Lockheed Martin's acquisition of GE Aerospace. The RAA was initiated to close two regional electronic manufacturing centers. Restructure costs are reimbursable from the U.S. Government if savings can be demonstrated to exceed costs. The total cost of restructuring under the RFA and the RAA represented approximately 15% of the estimated savings to the U.S. Government and, therefore, a deferred asset has been recorded by Lockheed Martin. The deferred asset is being allocated to all the former GE Aerospace sites, including the Communications Systems Division, on a basis that includes manufacturing labor, overhead, and direct material less non-hardware subcontracts. At December 31, 1997 and 1996, approximately $2,313 and $4,400, respectively, of unamortized RFA and RAA costs are deferred on the Company's and the Predecessor Company's consolidated (combined) balance sheets in other current assets and other assets.

The carrying values of the Predecessor Company intangibles were reviewed if the facts and circumstances indicated potential impairment of their carrying value. If this review indicated that intangible assets were not recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Businesses carrying values related to the intangible asset were reduced by the estimated shortfall of cash flows.

INCOME TAXES: The Company provides for income taxes using the liability method prescribed by the Financial Accounting Standards Board ("FASB") Statement No. 109, "Accounting for Income Taxes." Under the liability method, deferred income tax assets and liabilities reflect tax carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes, as determined under enacted tax laws and rates. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

PREDECESSOR COMPANY INCOME TAXES: The Predecessor Company was included in the consolidated Federal income tax return and certain combined and separate state and local income tax returns of Lockheed Martin. However, for purposes of these financial statements, the provision for income taxes has been allocated to the Predecessor Company based upon reported combined income before income taxes. Income taxes, current and deferred, are considered to have been paid or charged to Lockheed Martin and are recorded through the invested equity account with Lockheed Martin. The principal components of the deferred taxes are contract accounting methods, property, plant and equipment, goodwill amortization and timing of accruals.

RESEARCH AND DEVELOPMENT: Research and development costs sponsored by the Company and the Predecessor Company include research and development, bid and proposal costs related to government products and services. These costs generally are allocated among all contracts and programs in progress under U.S. Government contractual arrangements. Customer-sponsored research and development costs incurred pursuant to contracts are accounted for as direct contract costs.

STOCK OPTIONS: In accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations, compensation expense for stock options is recognized in income based on the excess, if any, of the Company's fair value of the stock at the grant date of the award or other measurement date over the amount an employee must pay to acquire the stock. The exercise price for stock options granted to employees equals or exceeds the fair value of Holdings common stock at the date of grant, thereby resulting in no recognition of compensation expense by the Company. The Company has adopted the disclosure - -only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123").

DERIVATIVE FINANCIAL INSTRUMENTS: In the normal course of financing operations, the Company enters into interest rate cap and floor transactions for interest rate protection purposes, and not for speculative or trading purposes. Cash payments to and from the Company and the counterparties are recorded as a component of interest expense. The initial cost of these arrangements are deferred and amortized as interest expense.

USE OF ESTIMATES: 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 reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to contract estimates of sales and costs, allocations from Lockheed Martin, recoverability of recorded amounts of fixed assets and cost in excess of net assets acquired, litigation and environmental obligations. Actual results could differ from these estimates.

EARNINGS PER SHARE: Earnings per share data is not presented since the Company and the Predecessor Company are wholly owned subsidiaries.

ACCOUNTING PRONOUNCEMENTS: In June 1997, the FASB issued Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains and losses) in full set general purpose financial statements. SFAS No. 131 establishes accounting standards for the way that public business enterprises report selected information about operating segments and requires that those enterprises report selected information about operating segments in interim financial reports issued to shareholders. In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS No. 132 revises employers' disclosures about pension and other postretirement benefits plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis, and eliminates certain disclosures that are no longer as useful as they were when SFAS No. 87 "Employers' Accounting for Pensions", SFAS No. 88 "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits" and SFAS No. 106 "Employers' Accounting for Postretirement Benefits Other Than Pensions" were issued. SFAS No. 132 suggests combined formats for presentation of pension and other postretirement benefits disclosures. SFAS No. 130 and SFAS No. 131 and SFAS No. 132 are required to be adopted by 1998. The Company is currently evaluating the impact, if any, of SFAS No. 130, SFAS No. 131 and SFAS 132.

Effective January 1, 1996, the Businesses adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and Long-Lived Assets To Be Disposed Of" ("SFAS 121"). 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 for long-lived assets and certain intangible assets to be disposed of. The impact of adopting SFAS 121 was not material.

Effective in December 1997 the Company adopted the provisions of SFAS No. 129, "Disclosure of Information about Capital Structure" ("SFAS 129").

RECLASSIFICATIONS: Certain reclassifications have been made to conform prior-year amounts to the current-year presentation.

4. PREDECESSOR COMPANY ACQUISITION

Effective April 1, 1996, Lockheed Martin acquired substantially all the assets and liabilities of the defense businesses of Loral, including the Wideband Systems Division and the Products Group which are included in the Businesses. The acquisition of the Wideband Systems Division and Products Group businesses (the "Loral Acquired Businesses") has been accounted for as a purchase by Lockheed Martin Communications Systems -- Camden Division ("Division"). The acquisition has been reflected in the financial statements based on the purchase price allocated to those acquired businesses by Lockheed Martin. The assets and liabilities recorded in connection with the purchase price allocation were $401,000 and $113,200, respectively. As such, the accompanying condensed combined financial statements for periods prior to April 1, 1997 reflect the results of operations of the Division and the Loral Acquired Businesses from the effective date of acquisition including the effects of an allocated portion of cost in excess of net assets acquired resulting from the acquisition.

(Dollars in thousands)

5. CONTRACTS IN PROCESS

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

	COMPANY	PREDECESSOR COMPANY
	DECEMBER 31,	
	1997	1996
Billed contract receivables	$ 39,029	$ 45,212
Unbilled contract receivables	33,136	84,814
Other billed receivables, principally commercial and affiliates	31,253	41,154
Inventoried costs	82,954	72,880
	186,372	244,060
Less, unliquidated progress payments	(19,170)	(45,987)
Net contracts in process	$167,202	$198,073

The U.S. Government has title to or a secured interest in, inventory to which progress payments are applied. Unbilled contract receivables represent accumulated costs and profits earned but not yet billed to customers. The Company believes that substantially all such amounts will be billed and collected within one year.

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

	COMPANY	PREDECESSOR COMPANY		
	NINE MONTHS ENDED DECEMBER 31,	THREE MONTHS ENDED MARCH 31,	FOR THE YEAR ENDED DECEMBER 31,	
	1997	1997	1996	1995
Selling, general and administrative ("SG&A") costs included in inventoried costs	$15,379	$14,536	$14,700	$1,156
Selling, general and administrative costs incurred	88,527	28,449	82,226	6,525
Independent research and development, including bid and proposal costs, included in SG&A incurred	$28,893	$12,024	$36,500	$9,800

6. NET ASSETS HELD FOR SALE

The Company has accounted for the allocation of purchase price and the net assets of its Hycor business in accordance with the FASB's Emerging Issues Task Force Issue 87-11 "Allocation of Purchase Price to Assets to be Sold" ("EITF 87-11"). Accordingly, the net assets related to the Hycor business as of April 1, 1997 are included in the accompanying consolidated balance sheet as "Net assets held for sale". The fair value assigned to such net assets is based upon management's estimate of the proceeds from the sale of the Hycor business less the estimated income from operations for such business during the holding period of April 1, 1997 through January 29, 1998 (the "holding period"), plus interest expense on debt allocated to such net assets during the holding period. On January 29, 1998, the Company sold the Hycor business, excluding land and buildings for $3,500 in cash subject to adjustment based on final closing net assets. In accordance with EITF 87-11, loss from the operations of the Hycor business of $108 and interest expense of $552 on the debt allocated to the Hycor net assets have been excluded from the Company's consolidated statements of operations for the nine months ended December 31, 1997. Management of the Company expects that any gain or loss realized on the ultimate disposition of the Hycor business will not have a material impact on the original purchase price allocation.

(Dollars in thousands)

Also included in net assets held for sale at December 31, 1997 is a Company property located in Atlanta, Georgia.

7. PROPERTY, PLANT AND EQUIPMENT

	COMPANY	PREDECESSOR COMPANY
	DECEMBER 31,	
	1997	1996
Land..	$ 6,670	$ 9,200
Buildings and improvements	19,487	27,000
Machinery, equipment, furniture and fixtures	58,978	73,137
Leasehold improvements	9,899	7,229
	$95,034	$116,566

Depreciation and amortization expense attributable to property, plant and equipment was $13,320 for the nine months ended December 31, 1997; $4,529 for the three months ended March 31, 1997, and $14,924 and $5,492 for the years ended December 31, 1996 and 1995, respectively.

8. DEBT

Long-term debt consists of:

	DECEMBER 31, 1997
Term loans............................	$172,000
10 3/8 Senior Subordinated Notes due 2007	225,000
	$397,000
Less current portion of term loans ...	5,000
Total long-term debt.................	$392,000

In connection with the L-3 Acquisition, the Company entered into a credit facility (the "Senior Credit Facilities") with a syndicate of banks and financial institutions for $275,000 consisting of $175,000 of term loans (the "Term Loan Facilities") and a $100,000 revolving credit facility (the "Revolving Credit Facility"). The Senior Credit Facilities bear interest, at the option of the Company, at a rate related to (i) the higher of federal funds rate plus 0.50% per annum or the reference rate published by Bank of America NT&SA or (ii) LIBOR. At December 31, 1997, such interest rates, based on various maturities, ranged from 7.625% to 8.625%. Interest payments vary in accordance with the type of borrowing and are made at a minimum every three months. The Revolving Credit Facility expires in 2003 and is available for ongoing working capital and letter of credit needs. The Term Loans mature in installments until the final maturity date in 2006. Approximately $93,428 of the Revolving Credit Facility is available at December 31, 1997 reflecting letters of credit of $6,572 drawn against the Revolving Credit Facility of $100,000. In February 1998, the Senior Credit Facilities were amended to, among other things, increase the Revolving Credit Facility to $200,000, waive certain excess cash flow prepayments, as defined, otherwise required and permit the incurrence of up to an additional $150,000 of subordinated debt. The Company pays a commitment fee of 0.375% per annum on the unused portion of the Revolving Credit Facility.

In April 1997, the Company issued $225,000 of 10 3/8% senior subordinated notes (the "1997 Notes") due May 1, 2007 with interest payable semi-annually on May 1 and November 1 of each year, commencing November 1, 1997. On November 5, 1997, the Company completed its exchange offer relating to the 1997

(Dollars in thousands)

Notes and the holders of the 1997 Notes received registered securities. The 1997 Notes are redeemable at the option of the Company, in whole or in part, at any time on or after May 1, 2002, at various redemption prices plus accrued and unpaid interest to the applicable redemption date. In addition, prior to May 1, 2000, the Company may redeem up to 35% of the aggregate principal amount of 1997 Notes at a redemption price of 109.375% of the principal amount thereof, plus accrued and unpaid interest to the redemption date with the net cash proceeds of one or more equity offerings by Holdings that are contributed to the Company as common equity capital.

The Senior Credit Facilities and the 1997 Notes agreement contain financial and restrictive covenants that limit, among other things, the ability of the Company to borrow additional funds, dispose of assets, or pay cash dividends. At December 31, 1997, none of the Company's retained earnings were available to pay dividends. The Senior Credit Facilities contain financial covenants, which remain in effect so long as any amount is owed by the Company thereunder. These financial covenants require that (i) the Company's debt ratio, as defined, be less than or equal to 5.50 for the quarter ended December 31, 1997, and that the maximum allowable debt ratio, as defined, thereafter be further reduced to less than or equal to 3.1 for the quarters ending after June 30, 2002, and (ii) the Company's interest coverage ratio, as defined, be at least 1.85 for the quarter ended December 31, 1997, and thereafter increasing the interest coverage ratio, as defined, to at least 3.10 for any fiscal quarters ended after June 30, 2002. At December 31, 1997, the Company was in compliance with these covenants.

In connection with the Senior Credit Facilities, the Company has granted the lenders a first priority lien on substantially all of the Company's assets including the stock of L-3 Communications Corporation.

The aggregate principal payments for debt, excluding borrowings under the Revolving Credit Facility, for the five years ending December 31, 1998 through 2002 are: $5,000, $11,000, $19,000, $25,000 and $33,200, respectively.

The costs related to the issuance of debt have been deferred and are being amortized as interest expense over the term of the related debt using a method that approximates the effective interest method.

9. PREDECESSOR COMPANY'S INTEREST EXPENSE

Interest expense has been allocated to the Predecessor Company by applying Lockheed Martin's weighted average consolidated interest rate to the portion of the beginning of the period invested equity account deemed to be financed by consolidated debt, which has been determined based on Lockheed Martin's debt to equity ratio on such date, except that the acquisition of the Loral Acquired Businesses has been assumed to be fully financed by debt. Management of the Businesses believes that this allocation methodology is reasonable.

Interest expense of the Predecessor Company was calculated using the following balances and interest rates:

	THREE MONTHS ENDED MARCH 31, 1997	YEARS ENDED DECEMBER 31, 1996	1995
Invested Equity	$473,609	$482,466	$199,506
Interest Rate ..	7.10%	7.20%	7.40%

10. FINANCIAL INSTRUMENTS

The Company's financial instruments consist primarily of cash and cash equivalents, billed contract receivables, other billed receivables (principally commercial and affiliates), trade accounts payable, customer advances, debt instruments, and interest rate cap and interest rate floor contracts. The book values of cash and cash equivalents, billed contract receivables, other billed receivables (principally commercial and affiliates), trade accounts payable and customer advances are considered to be representative of their respective fair values at December 31, 1997 due to the short-term maturities or expected settlement dates of these instruments.

(Dollars in thousands)

The Company's debt instruments consist of term loans and 1997 Notes (Note 8). The carrying values of the term loans approximate fair value because they are variable-rate loans which bear interest at current market rates.

The 1997 Notes are registered, unlisted public debt which is traded in the over-the-counter market. The fair value of such debt at December 31, 1997 was estimated to be approximately $243,000, based on trading activity on December 31, 1997.

To mitigate risks associated with changing interest rates on certain of its debt, the Company entered into the interest rate agreements. The fair values of the interest rate caps and interest rate floors (collectively, the "interest rate agreements") were estimated by discounting expected cash flows using quoted market interest rates. The Company manages exposure to counterparty credit risk by entering into the interest rate agreements only with major financial institutions that are expected to fully perform under the terms of such agreements. The notional amounts are used to measure the volume of these agreements and do not represent exposure to credit loss. The impact of the interest rate agreements was not material to interest expense for the nine months ended December 31, 1997. Information with respect to the interest rate agreements is as follows:

	DECEMBER 31, 1997	
	NOTIONAL AMOUNT	UNREALIZED GAINS (LOSSES)
Interest rate caps .	$100,000	$(1,008)
Interest rate floors..............	$ 50,000	$ (263)

At December 31, 1996, the Predecessor Company's financial instruments consisted primarily of billed contract receivables, other billed receivables (principally commercial and affiliates), trade accounts payable and customer advances. The book value of billed contract receivables, other billed receivables (principally commercial and affiliates), trade accounts payable and customer advances approximated their respective fair values at December 31, 1996, due to the short-term maturities or expected settlement dates of those instruments.

11. NONCASH COMPENSATION CHARGE

Holdings' Class A Common Stock and Class B Common Stock were issued at per share prices of $6.47 and $5.00, respectively. The aggregate difference in issuance prices of $4,410 has been accounted for as a noncash compensation charge to expense effective on April 1, 1997, related to the initial capitalization of L-3.

12. INCOME TAXES

THE COMPANY

Pretax income of the Company for the nine months ended December 31, 1997 was $22,992 and was primarily domestic. The components of the Company's provision for income taxes for the nine months ended December 31, 1997 are:

Income taxes currently payable, primarily federal	$ 696
Deferred income taxes:	
Federal	8,635
State and local	1,356
Subtotal	$ 9,991
Total provision for income taxes	$10,687

(Dollars in thousands)

The effective income tax rate of the Company for the nine months ended December 31, 1997 differs from the statutory federal income tax rate for the following reasons:

Statutory federal income tax rate	35.0%
State and local income taxes, net of federal income tax benefit	3.8
Noncash compensation charge	6.8
Non-deductible goodwill amortization and other expenses	4.4
Research and development and other tax credits	(3.5)
Effective income tax rate	46.5 %

The significant components of the Company's net deferred tax assets at December 31, 1997 are:

Deferred tax assets:	
Other postretirement benefits	$ 8,649
Inventoried costs	8,711
Compensation and benefits	528
Pension costs	4,177
Property, plant and equipment	8,098
Income recognition on long-term contracts	3,691
Other, net	1,861
Net operating loss and other credit carryforwards	2,969
Total deferred tax assets	38,684
Deferred tax liabilities:	
Cost in excess of net assets acquired	(1,099)
Other, net	(70)
Total deferred tax liabilities	(1,169)
Net deferred tax assets	$37,515
The net deferred tax assets are classified as follows:	
Current deferred tax assets	$13,298
Long-term deferred tax assets	24,217
	$37,515

At December 31, 1997, the Company had $2,969 of tax credit carryforwards, primarily related to U.S. federal net operating losses and research and experimentation tax credits which expire, if unused, in 2012. The Company believes that these carryforwards will be available to reduce future income tax liabilities and has recorded these carryforwards as non-current deferred tax assets.

PREDECESSOR COMPANY

The (benefit) provision for income taxes for the Predecessor Company was calculated by applying statutory tax rates to the reported income (loss) before income taxes after considering items that do not enter into the determination of taxable income and tax credits reflected in the consolidated provision of Lockheed Martin, which are related to the Businesses. Substantially all the income of the Businesses are from domestic operations. For the three months ended March 31, 1997, it is estimated that the benefit for deferred taxes represents $1,315. For the years ended December 31, 1996 and 1995, it is estimated that the (benefit) provision for deferred taxes represents ($2,143) and $3,994, respectively.

(Dollars in thousands)

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

	FOR THE THREE MONTHS ENDED MARCH 31,	YEARS ENDED DECEMBER 31,	
	1997	1996	1995
Statutory federal income tax rate	(35.0)%	35.0%	34.0%
Amortization of cost in excess of net assets acquired	(8.1)	2	529
Research and development and other tax credits	(11.3)	(2)	--
State and local income taxes, net of federal income tax benefit and state and local income tax credits	4.8	6	101
Foreign sales corporation tax benefits	(8.4)	(1)	--
Other, net	9.1	--	17.0
Effective income tax rate	(48.9)%	40.0%	681%

13. STOCK OPTIONS

THE COMPANY

Holdings sponsors an option plan for key employees, pursuant to which options to purchase up to 3,255,815 shares of common stock have been authorized for grant.

On April 30, 1997, Holdings adopted the 1997 Option Plan for key employees and granted to the Equity Executives nonqualified options to purchase, at $6.47 per share, 2,285,714 shares of Class A common stock of Holdings. In each case, half of the options are "Time Options" and half are "Performance Options" (collectively, the "Options"). The Time Options become exercisable with respect to 20% of the shares subject to the Time Options on each of the first five anniversaries if employment continues through and including such date. The Performance Options become exercisable nine years after the grant date, but may become exercisable earlier with respect to up to 20% of the shares subject to the Performance Options on each of the first five anniversaries, to the extent certain defined targets are achieved. The Options, which have a ten year term, become fully exercisable under certain circumstances, including a change in control.

On July 1, 1997 and November 11, 1997, Holdings granted nonqualified options to certain officers and other employees of the Company to purchase at $6.47 per share 689,500 shares of Class A common stock of Holdings (collectively, the "1997 Options"). Generally, the 1997 Options vest over a three-year vesting period and expire ten years from the date of grant.

The exercise price for Holdings' stock options granted to employees in 1997 equaled the estimated fair value of Holdings' common stock at the date of grant. Accordingly, in accordance with APB 25, no compensation expense was recognized by the Company.

Pro forma information regarding net earnings as required by SFAS 123 has been determined as if the Company had accounted for its employee stock options under the fair value method. Because Holdings is a nonpublic entity the fair value for the options was estimated at the date of grant using the minimum value method prescribed in SFAS 123, which does not consider the expected volatility of Holdings' stock price, with the following weighted-average assumptions for 1997: risk-free interest rate of 6.3%; dividend yield of 0%; and weighted-average expected option life of 5.49 years.

For purposes of pro forma disclosures, the compensation cost of the options based on their estimated fair values is amortized to expense over vesting periods of the options. The Company's net income for the nine months ended December 31, 1997 would have decreased to the pro forma amounts indicated below:

Net income:	
As reported .	$12,305
Pro forma.....	$11,751

A summary of the stock option activity for the nine months ended December 31, 1997 is as follows:

	SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
Options granted	2,975	$6.47
Options exercised	--	--
Options cancelled	4	$6.47
Options outstanding, December 31, 1997	2,971	$6.47
Options exercisable, December 31, 1997	--	--

The weighted-average grant-date fair value of options granted during the nine months ended December 31, 1997 was $1.82 per option. The weighted average remaining contract life of the Company's outstanding stock options was 9.37 years at December 31, 1997.

PREDECESSOR COMPANY

During the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, certain employees of the Predecessor Company participated in Lockheed Martin's stock option plans. All stock options granted had 10 year terms and vested over a two year service period. Exercise prices of options awarded in both years were equal to the market price of the stock on the date of grant. Pro forma information regarding net earnings (loss) as required by SFAS No. 123 has been determined as if the Predecessor Company had accounted for its employee stock options under the fair value method. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, respectively: risk-free interest rates of 5.58%, 5.58% and 6.64%; dividend yield of 1.70%; volatility factors related to the expected market price of the Lockheed Martin's common stock of .186, .186 and .216; weighted-average expected option life of five years. The weighted-average fair values of options granted during 1997, 1996 and 1995 were $17.24, $17.24 and $16.09, respectively.

For the purposes of pro forma disclosures, the options' estimated fair values are amortized to expense over the options' vesting periods. The Predecessor Company's pro forma net loss for the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995 were ($386), $11,531, and $(1,040), respectively.

(Dollars in thousands)

14. COMMITMENTS AND CONTINGENCIES

The Company and Predecessor Company leases certain facilities and equipment under agreements expiring at various dates through 2011. At December 31, 1997, the Company's future minimum payments for noncancellable operating leases with initial or remaining terms in excess of one year are as follows:

	OPERATING LEASES		
	REAL ESTATE	EQUIPMENT	TOTAL
1998..........	$ 8,599	$295	$ 8,894
1999	7,734	244	7,978
2000	10,030	232	10,262
2001	8,926	29	8,955
2002	2,795	22	2,817
Thereafter ..	14,393	--	14,393
	$52,477	$822	$53,299

Real estate lease commitments have been reduced by minimum sublease rentals of $22,106 due in the future under noncancellable subleases.

Leases covering major items of real estate and equipment contain renewal and or purchase options which may be exercised by the Company and Predecessor Company. Rent expense, net of sublease income from other Lockheed Martin entities, was $7,330 for the Company for the nine months ended December 31, 1997; $2,553 for the Predecessor Company for the three months ended March 31, 1997 and $8,495 and $4,772 for the Predecessor Company for the years ended December 31, 1996 and 1995, respectively.

The Company is and the Predecessor Company has been engaged in providing products and services under contracts with the U.S. Government and to a lesser degree, under foreign government contracts, some of which are funded by the U.S. Government. All such contracts are subject to extensive legal and regulatory requirements, and, from time to time, agencies of the U.S. Government investigate whether such contracts were and are being conducted in accordance with these requirements. Under government procurement regulations, an indictment of the Company and the Predecessor Company by a federal grand jury could result in the Company and the Predecessor Company being suspended for a period of time from eligibility for awards of new government contracts. A conviction could result in debarment from contracting with the federal government for a specified term.

The decline in the U.S. defense budget since the mid-1980s has resulted in program delays, cancellations and scope reduction for defense contracts in general. These events may or may not have an effect on the Company's programs; however, in the event that U.S. Government expenditures for products of the type manufactured by the Company are reduced, and not offset by greater commercial sales or other new programs or products, or acquisitions, there may be a reduction in the volume of contracts or subcontracts awarded to the Company.

Pursuant to the L-3 Acquisition Agreement, Holdings and the Company have agreed to assume certain on-site and off-site environmental liabilities related to events or activities occurring prior to the consummation of the L-3 Acquisition. Lockheed Martin has agreed to retain all environmental liabilities for all facilities not used by the Businesses as of April, 1997 and to indemnify fully Holdings for such prior site environmental liabilities. Lockheed Martin has also agreed, for the first eight years following April 1997 to pay 50% of all costs incurred by Holdings above those reserved for on the Company's balance sheet at March 31, 1997 relating to certain Company-assumed environmental liabilities and, for the seven years thereafter, to pay 40% of certain reasonable operation and maintenance costs relating to any environmental remediation projects undertaken in the first eight years. The Company believes that its total liability for known or reasonably probable environmental claims, even without consideration of the Lockheed Martin indemnification, would not either individually or collectively have a material adverse effect upon the Company's financial condition or upon the results of its operations.

Management continually assesses the Company's obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost to be incurred by the Company in order to comply with these laws, based upon available internal and external assessments, with respect to those environmental loss contingencies of which management is aware, the Company believes that even without considering potential insurance recoveries, if any, there are no environmental loss contingencies that, individually or in the aggregate, would be material to the Company's results of operations. The Company accrues for these contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The Company and the Predecessor Company have been periodically subject to litigation, claims or assessments and various contingent liabilities (including environmental matters) incidental to its business. With respect to those investigative actions, items of litigation, claims or assessments of which they are aware, management of the Company is of the opinion that the probability is remote that, after taking into account certain provisions that have been made with respect to these matters, the ultimate resolution of any such investigative actions, items of litigation, claims or assessments will have a material adverse effect on the financial position or results of operations of the Company and the Predecessor Company.

15. PENSIONS AND OTHER EMPLOYEE BENEFITS

THE COMPANY

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

Pension expense for the nine months ended December 31, 1997 includes the following components:

Service cost	$ 5,109
Interest cost	8,883
Actual return on plan assets	(11,285)
Net deferral	1,581
Total pension cost	$ 4,288

(Dollars in thousands)

The following presents the funded status and amounts recognized in the balance sheet for the Company's pension plans:

	DECEMBER 31, 1997	
	ASSETS EXCEED ACCUMULATED BENEFITS	ACCUMULATED BENEFITS EXCEED ASSETS
Actuarial present value of benefit obligations:		
Vested benefits	$13,742	$152,133
Accumulated benefits	$13,825	$155,474
Effect of projected future salary increases	3,337	25,795
Projected benefits	$17,162	$181,269
Plan assets at fair value	$18,172	$155,278
Plan assets in excess of (less than) projected benefit obligation	1,010	(25,991)
Unrecognized net (gain) loss	(559)	5,683
Prepaid (accrued) pension cost	$ 451	$(20,308)

The following assumptions were used in accounting for pension plans for the Company:

	APRIL 1, 1997	DECEMBER 31, 1997
Discount rate	7.50%	7.25%
Rate of increase in compensation	5.00%	5.00%
Rate of return on plan assets	9.00%	9.00%

In connection with the Company's assumption of certain plan obligations pursuant to the L-3 Acquisition, Lockheed Martin has provided the PBGC with commitments to assume sponsorship or other forms of financial support under certain circumstances. In this connection, the Company has provided certain assurances to Lockheed Martin including, but not limited to, (i) continuing to fund the pension plans consistent with prior practices and to the extent deductible for tax purposes and, where appropriate, recoverable under Government contracts, (ii) agreeing to not increase benefits under the pension plans without the consent of Lockheed Martin, (iii) restricting the Company from a sale of any businesses employing individuals covered by the pension plans if such sale would not result in reduction or elimination of the Lockheed Martin Commitment with regard to the specific plan and (iv) if the pension plans were returned to Lockheed Martin, granting Lockheed Martin the right to seek recovery from the Company of those amounts actually paid, if any, by Lockheed Martin with regard to the pension plans after their return.

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

(Dollars in thousands)

Post-retirement health care and life insurance costs for the nine months ended December 31, 1997 include the following components:

Service cost	$ 466
Interest cost	840
Total post-retirement health care and life insurance costs	$1,306

The following table presents the amounts recognized in the balance sheet for the Company at December 31, 1997:

Accumulated post-retirement benefit obligation:	
Retirees	$ 4,702
Fully eligible plan participants	3,188
Other active plan participants	10,990
Total accumulated post-retirement benefit obligation	$18,880
Unrecognized net loss	624
Accrued post-retirement health care and life insurance costs	$18,256

Actuarial assumptions used in determining the December 31, 1997 accumulated post-retirement benefit obligation include a discount rate of 7.25%, an average rate of compensation increase of 5.0% and an assumed health care cost trend rate of 6.5% in 1997 decreasing gradually to a rate of 4.5% by the year 2001. The discount rate used at April 1, 1997 was 7.50%. The other assumptions did not change from April 1, 1997. Increasing the assumed health care cost trend rate by 1% would change the accumulated post-retirement benefits obligation at December 31, 1997 by approximately $2,218 and the aggregate service and interest cost components for the nine months ended December 31, 1997 by approximately $81 and $113, respectively.

EMPLOYEE SAVINGS PLAN: Under its various employee savings plans, the Company matches the contributions of participating employees up to a designated level. The extent of the match, vesting terms and the form of the matching contribution vary among the plans. Under these plans, the Company's matching contributions, in cash, for the nine months ended December 31, 1997 was $3,742.

THE PREDECESSOR COMPANY

Certain of the Businesses for the Predecessor Company participated in various Lockheed Martin-sponsored pension plans covering certain employees. Eligibility for participation in these plans varies, and benefits are generally based on members' compensation and years of service. Lockheed Martin's funding policy was generally to contribute in accordance with cost accounting standards that affect government contractors, subject to the Internal Revenue Code and regulations. Since the aforementioned pension arrangements are part of certain Lockheed Martin defined benefit plans, no separate actuarial data is available for the portion allocable to the Businesses. Therefore, no liabilities or assets are reflected in the accompanying combined financial statements of the Predecessor Company as of December 31, 1996. The Businesses have been allocated pension costs based upon participant employee headcount. Net pension expense included in the accompanying combined financial statements of the Predecessor Company was $1,848 for the three months ended March 31, 1997, and $7,027 and $4,134, for the years ended December 31, 1996 and 1995, respectively.

In addition to participating in Lockheed Martin-sponsored pension plans, certain of the Businesses of the Predecessor Company provided varying levels of health care and life insurance benefits for retired employees and dependents. Participants were eligible for these benefits when they retired from active service and met the pension plan eligibility requirements. 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. Since the aforementioned postretirement benefits are part of certain Lockheed Martin postretirement arrangements, no separate actuarial data is available for the portion allocable to the Businesses. Accordingly, no liability is reflected in the accompanying combined financial statements as of combined December 31, 1996 and 1995. The Businesses have been allocated postretirement benefits cost based on participant employee headcount. Postretirement benefit costs included in the accompanying combined financial statements was $616 for the three months ended March 31, 1997 and $2,787 and $2,124 for the years ended December 31, 1996 and 1995, respectively. Under various employee savings plans sponsored by Lockheed Martin, the Predecessor Company matched contributions of participating employees up to a designated level. Under these plans the matching contributions for the three months ended March 31, 1997 and for the years ended December 31, 1996 and 1995 were $1,241, $3,940 and $1,478, respectively.

(Dollars in thousands)

16. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosures to the consolidated statement of cash flows are as follows:

	COMPANY	PREDECESSOR COMPANY		
	NINE MONTHS ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	YEAR ENDED DECEMBER 31, 1996	1995
Interest paid	$21,245	--	--	--
Income taxes paid	$ 109	--	--	--

The Company issued $45,000 of Holdings Class A Common Stock to Lockheed Martin in a non-cash transaction as partial consideration paid to Lockheed Martin for the L-3 Acquisition.

17. SALES TO PRINCIPAL CUSTOMERS

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

	COMPANY	PREDECESSOR COMPANY		
	NINE MONTHS ENDED DECEMBER 31, 1997	THREE MONTHS ENDED MARCH 31, 1997	YEAR ENDED DECEMBER 31, 1996	YEAR ENDED DECEMBER 31, 1995
U.S. Government Agencies ...	$434,020	$128,505	$425,033	$161,617
Foreign (principally foreign governments)	12,090	13,612	33,475	4,945
Other (principally U.S. commercial)	100,415	16,756	84,573	219
	$546,525	$158,873	$543,081	$166,781

18. OTHER TRANSACTIONS WITH LOCKHEED MARTIN

The Company and the Predecessor Company sell products to Lockheed Martin and its affiliates, net sales for which were $60,402 for the nine months ended December 31, 1997; $21,171 for the three months ended March 31, 1997 and $70,658 and $25,874 for the years ended December 31, 1996 and 1995, respectively. Included in Contracts in Process are receivables from Lockheed Martin and its affiliates of $8,846 and $10,924 at December 31, 1997 and 1996, respectively.

Lockheed Martin provides the Company information systems and other services and previously provided similar services to the Predecessor Company for which the Company and the Predecessor Company was charged $13,690, $4,210, $20,901 and $20,508 for the nine months ended December 31, 1997, the three months ended March 31, 1997 and the years ended December 31, 1996 and 1995, respectively.

The Predecessor Company relied on Lockheed Martin for certain services, including treasury, cash management, employee benefits, taxes, risk management, internal audit, financial reporting, contract administration and general corporate services. Although certain assets, liabilities and expenses related to these services have been allocated to the Businesses, the combined financial position, results of operations and cash flows presented in the accompanying combined financial statements would not be the same had the Businesses been independent entities.

The amount of allocated corporate expenses to the Predecessor Company and reflected in these combined financial statements was estimated based primarily on an allocation methodology prescribed by government regulations pertaining to government contractors. Allocated costs to the Businesses were $5,208 for the three months ended March 31, 1997, and $10,057 and $2,964 for the years ended December 31, 1996 and 1995, respectively.

19. SUBSEQUENT EVENTS

In February 1998, the Company purchased substantially all the assets and liabilities of the Satellite Transmission Systems division of California Microwave, Inc. The purchase price of $27,000 is subject to adjustment based on closing net assets. The Company used cash on hand to fund the purchase price.

On December 22, 1997, the Company signed a definitive agreement to purchase substantially all the assets and liabilities of the Ocean Systems division of AlliedSignal Inc. The purchase price of $67,500, subject to adjustment based on closing net working capital, will be financed through cash on hand and/or borrowings available under the Senior Credit Facilities.

In February 1998, the Company entered into a definitive agreement to purchase the assets of ILEX Systems ("ILEX") for $51,900 in cash and additional consideration based on post-acquisition performance of ILEX.

The acquisition of ILEX and Ocean Systems are expected to close during the first quarter of 1998. The Company plans to finance the purchase prices using its cash on hand and available borrowings under its revolving credit facility.

In February 1998, the Company filed a registration statement with the Securities and Exchange Commission ("SEC") for the sale of $150,000 aggregate principal amount of Senior Subordinated Notes due 2008 (the "Notes Offering"), and concurrently with the Notes Offering, Holdings filed a registration statement with the SEC for the sale of 5.5 million shares of common stock of Holdings.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

DIRECTORS AND EXECUTIVE OFFICERS

The following table provides information concerning the directors and executive officers of Holdings and L-3 Communications.

NAME	AGE	POSITION
Frank C. Lanza	66	Chairman, Chief Executive Officer and Director
Robert V. LaPenta	52	President, Chief Financial Officer and Director
Michael T. Strianese	42	Vice President--Finance and Controller
Christopher C. Cambria ..	39	Vice President--General Counsel and Secretary
Robert F. Mehmel	35	Vice President--Planning and Assistant Secretary
Lawrence H. Schwartz	60	Vice President--Business Development
Jimmie V. Adams	61	Vice President--Washington D.C. Operations
Robert RisCassi	62	Vice President--Washington D.C. Operations
David J. Brand(a)	36	Director
Alberto M. Finali	43	Director
Eliot M. Fried(a)	65	Director
Robert B. Millard(b)	47	Director
Alan H. Washkowitz(b) ...	57	Director
Thomas A. Corcoran	53	Director
Frank H. Menaker, Jr.(a)	57	Director
John E. Montague(b)	44	Director

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(a) Member of the Audit Committee.
(b) Member of the Compensation Committee.

Frank C. Lanza, Chairman and CEO. Mr. Lanza joined the Company in April 1997. From April 1996, when Loral was acquired by Lockheed Martin, until April 1997, Mr. Lanza was Executive Vice President of Lockheed Martin, a member of Lockheed Martin's Executive Council and Board of Directors and President and COO of Lockheed Martin's C(3)I and Systems Integration Sector, which comprised many of the businesses acquired by Lockheed Martin from Loral. Prior to the April 1996 acquisition of Loral, Mr. Lanza was President and COO of Loral, a position he held since 1981. He joined Loral in 1972 as President of its largest division, Electronic Systems. His earlier experience was with Dalmo Victor and Philco Western Development Laboratory.

Robert V. LaPenta, President and Chief Financial Officer. Mr. LaPenta joined the Company in April 1997. From April 1996, when Loral was acquired by Lockheed Martin, until April 1997, Mr. LaPenta was a Vice President of Lockheed Martin and was Vice President and Chief Financial Officer of Lockheed's C(3)I and Systems Integration Sector. Prior to the April 1996 acquisition of Loral, he was Loral's Senior Vice President and Controller, a position he held since 1981. He joined Loral in 1972 and was named Vice President and Controller of its largest division in 1974. He became Corporate Controller in 1978 and was named Vice President in 1979.

Michael T. Strianese, Vice President-Finance and Controller. Mr. Strianese joined the Company in April 1997. From April 1996, when Loral was acquired by Lockheed Martin, until April 1997, Mr.

Strianese was Vice President and Controller of Lockheed Martin's C(3)I and Systems Integration Sector. From 1991 to the April 1996 acquisition of Loral, he was Director of Special Projects at Loral. Prior to joining Loral, he spent 11 years with Ernst & Young. Mr. Strianese is a Certified Public Accountant.

Christopher C. Cambria, Vice President-General Counsel and Secretary. Mr. Cambria joined the Company in June 1997. From 1994 until joining the Company, Mr. Cambria was an associate with Fried, Frank, Harris, Shriver & Jacobson. From 1986 until 1993, he was an associate with Cravath, Swaine & Moore.

Robert F. Mehmel, Vice President-Planning and Assistant Secretary. Mr. Mehmel joined the Company in April 1997. From April 1996, when Loral was acquired by Lockheed Martin, until April 1997, Mr. Mehmel was the Director of Financial Planning and Capital Review for Lockheed Martin's C(3)I and Systems Integration Sector. From 1984 to 1996, Mr. Mehmel held several accounting and financial analysis positions at Loral Electronic Systems and Loral. At the time of Lockheed Martin's acquisition of Loral, he was Corporate Manager of Business Analysis.

Lawrence H. Schwartz, Vice President-Business Development. Mr. Schwartz joined the Company in May 1997. From April 1996 until May 1997, Mr. Schwartz was Vice President of Technology for the C(3)I and System Integration Sector of Lockheed Martin. Prior to the April 1996 acquisition of Loral, he was Corporate Vice President of Technology for Loral, a position he held since 1987. Between 1976 and 1987, Mr. Schwartz was Vice President of Engineering, Senior Vice President of Business Development, Senior Vice President of the Rapport Program and Senior Vice President of Development Programs at Loral Electronic Systems.

Jimmie V. Adams, Vice President-Washington, D.C. Operations. General Jimmie V. Adams (U.S.A.F.-ret.) joined the Company in April 1997. From April 1996 until April 1997, he was Vice President of Lockheed Martin's Washington Operations for the C(3)I and Systems Integration Sector. Prior to the April 1996 acquisition of Loral he held the same position at Loral since 1993. Before joining Loral in 1993, he was Commander in Chief, Pacific Air Forces, Hickam Air Force Base, Hawaii, capping a 35-year career with the U.S. Air Force. He was also Deputy Chief of Staff for plans and operation for U.S. Air Force headquarters and Vice Commander of Headquarters Tactical Air Command and Vice Commander in Chief of the U.S. Air Forces Atlantic at Langley Air Force Base. He is a command pilot with more than 141 combat missions.

Robert RisCassi, Vice President-Washington, D.C. Operations. General Robert W. RisCassi (U.S. Army-ret.) joined the Company in April 1997. From April 1996 until April 1997, he was Vice President of Land Systems for Lockheed Martin's C(3)I and Systems Integration Sector. Prior to the April 1996 acquisition of Loral he held the same position for Loral since 1993. He joined Loral in 1993 after retiring as U.S. Army Commander in Chief, United Nations Command/Korea. His 35-year military career included posts as Army Vice Chief of Staff; Director, Joint Staff, Joint Chiefs of Staff; Deputy Chief of Staff for Operations and Plans; and Commander of the Combined Arms Center.

David J. Brand, Director. Mr. Brand has served as a director since April 1997 and is a Managing Director of Lehman Brothers and a principal in the Global Mergers & Acquisitions Group, leading Lehman Brothers' Technology Mergers and Acquisitions business. Mr. Brand joined Lehman Brothers in 1987 and has been responsible for merger and corporate finance advisory services for many of Lehman Brothers' technology and defense industry clients. Mr. Brand is currently a director of K&F Industries, Inc. Mr. Brand holds an M.B.A. from Stanford University's Graduate School of Business and a B.S. in Mechanical Engineering from Boston University.

Alberto M. Finali, Director. Mr. Finali has served as a director since April 1997 and is a Managing Director of Lehman Brothers and principal of the Merchant Banking Group, based in New York. Prior to joining the Merchant Banking Group, Mr. Finali spent four years in Lehman Brothers' London office as a senior member of the M&A Group. Mr. Finali joined Lehman Brothers in 1987 as a member of the M&A Group in New York and became a Managing Director in 1997. Prior to joining Lehman Brothers, Mr. Finali worked in the Pipelines and Production Technology Group of Bechtel, Inc. in San Francisco. Mr. Finali holds an M.E. and an M.B.A. from the University of California at Berkeley, and a Laurea Degree in Civil Engineering from the Polytechnic School in Milan, Italy.

Eliot M. Fried, Director. Mr. Fried has served as a director since April 1997 and is a Managing Director of Lehman Brothers. Mr. Fried joined Shearson, Hayden Stone, a predecessor firm, in 1976 and became a Managing Director in 1982. Mr. Fried has extensive experience in portfolio management and equity research. Mr. Fried is currently a director of Bridgeport Machines, Inc., Energy Ventures, Inc., SunSource L.P., Vernitron Corporation and Walter Industries, Inc. Mr. Fried holds an M.B.A. from Columbia University and a B.A. from Hobart College.

Robert B. Millard, Director. Mr. Millard has served as a director since April 1997 and is a Managing Director of Lehman Brothers, Head of Lehman Brothers' Principal Trading & Investments Group and principal of the Merchant Banking Group. Mr. Millard joined Kuhn Loeb & Co. in 1976 and became a Managing Director of Lehman Brothers in 1983. Mr. Millard is currently a director of GulfMark International, Inc. and Energy Ventures, Inc. Mr. Millard holds an M.B.A. from Harvard University and a B.S. from the Massachusetts Institute of Technology.

Alan H. Washkowitz, Director. Mr. Washkowitz has served as a director since April 1997 and is a Managing Director of Lehman Brothers and head of the Merchant Banking Group, and is responsible for the oversight of Lehman Brothers Merchant Banking Portfolio Partnership L.P. Mr. Washkowitz joined Lehman Brothers in 1978 when Kuhn Loeb & Co. was acquired by Lehman Brothers. Mr. Washkowitz is currently a director of Illinois Central Corporation, K&F Industries, Inc. and McBride plc. Mr. Washkowitz holds an M.B.A. from Harvard University, a J.D. from Columbia University and an A.B. from Brooklyn College.

Thomas A. Corcoran, Director. Mr. Corcoran has served as a director since July 1997 and has been the President and Chief Operating Officer of the Electronic Systems Sector of Lockheed Martin Corporation since March 1995. From 1993 to 1995, Mr. Corcoran was President of the Electronics Group of Martin Marietta Corporation. Prior to that he worked for General Electric for 26 years and from 1983 to 1993 he held various management positions with GE Aerospace; he was a company officer from 1990 to 1993. Mr. Corcoran is a member of the Board of Trustees of Worcester Polytechnic Institute, the Board of Trustees of Stevens Institute of Technology, the Board of Governors of the Electronic Industries Association, a Director of the U.S. Navy Submarine League and a Director of REMEC Corporation.

Frank H. Menaker, Jr., Director. Mr. Menaker has served as a director since April 1997 and has served as Senior Vice President and General Counsel of Lockheed Martin since July 1996. He served as Vice President and General Counsel of Lockheed Martin from March 1995 to July 1996, as Vice President of Martin Marietta Corporation from 1982 until 1995 and as General Counsel of Martin Marietta

Corporation from 1981 until 1995. He is a director of Martin Marietta Materials, Inc., a member of the American Bar Association and has been admitted to practice before the United States Supreme Court. Mr. Menaker is a graduate of Wilkes University and the Washington College of Law at American University.

John E. Montague, Director. Mr. Montague has served as a director since April 1997 and has been Vice President, Financial Strategies at Lockheed Martin responsible for mergers, acquisitions and divestiture activities and shareholder value strategies since March 1995. Previously, he was Vice President, Corporate Development and Investor Relations at Martin Marietta Corporation from 1991 to 1995. From 1988 to 1991, he was Director of Corporate Development at Martin Marietta Corporation, which he joined in 1977 as a member of the engineering staff. Mr. Montague is a director of Rational Software Corporation. Mr. Montague received his B.S. from the Georgia Institute of Technology and an M.S. in engineering from the University of Colorado.

The Board of Directors intends to appoint two additional directors who are not affiliated with the Company promptly following the Common Stock Offering. The additional directors have not yet been identified.

Upon closing of the Common Stock Offering, the Company's certificate of incorporation will provide for a classified Board of Directors divided into three classes. Class I will expire at the annual meeting of the stockholders to be held in 1999; Class II will expire at the annual meeting of the stockholders to be held in 2000; and Class III will expire at the annual meeting of the stockholders to be held in 2001. At each annual meeting of the stockholders, beginning with the 1999 annual meeting, the successors to directors whose terms will then expire will be elected to serve from the time of election and qualification until the third annual meeting following election and until their successors have been duly elected and qualified, or until their earlier resignation or removal, if any. To the extent there is an increase or reduction in the number of directors, increase or decrease in directorships resulting therefrom will be distributed among the three classes so that, as nearly as possible, each class will consist of an equal number of directors.

Each executive officer and key employee serves at the discretion of the Board of Directors.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors has two standing committees: an Audit Committee and a Compensation Committee. Currently, the Audit Committee consists of Messrs. Brand, Fried and Menaker. The Company intends to appoint to the Audit Committee only persons who qualify as an "independent" director for purposes of the rules and regulations of the NYSE. The Audit Committee will select and engage, on behalf of the Company, the independent public accountants to audit the Company's annual financial statements, and will review and approve the planned scope of the annual audit. Currently, Messrs. Millard, Montague and Washkowitz serve as members of the Compensation Committee. The Compensation Committee establishes remuneration levels for certain officers of the Company, performs such functions as provided under the Company's employee benefit programs and executive compensation programs and administers the 1997 Option Plan of Key Employees of Holdings.

COMPENSATION OF DIRECTORS

The current directors of the Company do not receive compensation for their services as directors. Any non-affiliated directors will receive directors' fees and reimbursements for their reasonable out-of-pocket expenses in connection with their travel to and attendance at meetings of the board of directors or committees thereof.

LIMITATIONS ON LIABILITY AND INDEMNIFICATION MATTERS

The Company's Certificate of Incorporation provides that to the fullest extent permitted by the Delaware General Corporation Law (the "DGCL"), a director of the Company shall not be liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director. Under the DGCL, liability of a director may not be limited (i) for any breach of the director's duty of loyalty to the

Company or its stockholders, (ii) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (iii) in respect of certain unlawful dividend payments or stock redemptions or repurchases and (iv) for any transaction from which the director derives an improper personal benefit. The effect of the provisions of the Company's Certificate of Incorporation is to eliminate the rights of the Company and its stockholders (through stockholders' derivative suits on behalf of the Company) to recover monetary damages against a director for breach of the fiduciary duty of care as a director (including breaches resulting from negligent or grossly negligent behavior), except in the situations described in clauses (i) through (iv) above. This provision does not limit or eliminate the rights of the Company or any stockholder to seek nonmonetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. In addition, the Company's Bylaws provide that the Company shall indemnify its directors, officers, employees and agents against losses incurred by any such person by reason of the fact that such person was acting in such capacity.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers or persons controlling the Company pursuant to the foregoing provisions, the Company has been informed that, in the opinion of the Commission, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

ITEM 11. EXECUTIVE COMPENSATION.

EXECUTIVE COMPENSATION

Summary Compensation Table. The following table provides certain summary information concerning compensation paid or accrued by the Company to or on behalf of the Company's Chief Executive Officer and each of the four other most highly compensated executive officers of the Company (the "Named Executive Officers") during the nine months ended December 31, 1997:

SUMMARY COMPENSATION TABLE

	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS		
NAME AND PRINCIPAL POSITION	SALARY	BONUS	RESTRICTED STOCK AWARDS	SECURITIES UNDERLYING STOCK OPTIONS	ALL OTHER COMPENSATION(1)
Frank C. Lanza (Chairman and Chief Executive Officer)(2)	$542,654	--		1,142,857	--
Robert V. LaPenta (President and Chief Financial Officer)(2)	356,538	--		1,142,857	--
Lawrence H. Schwartz (Vice President)	145,327	$80,000		17,000	--
Jimmie V. Adams (Vice President)	157,854	70,000		15,000	$ 61
Robert RisCassi (Vice President)	125,704	60,000		15,000	611

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(1) Represents Company match under savings plan.
(2) On March 2, 1998, each of Mr. Lanza and Mr. LaPenta exercised 228,571 options.

Stock Options Granted in 1997. The following table sets forth information concerning individual grants of stock options to purchase Holdings' Common Stock made in 1997 to each of the Named Executive Officers.

OPTION GRANTS

	INDIVIDUAL GRANTS				
NAME AND PRINCIPAL POSITION	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED (#)	PERCENT OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE PRICE ($/SH)	EXPIRATION DATE	GRANT-DATE VALUE(1)
Frank C. Lanza (Chairman and Chief Executive Officer)	1,142,857(2)	38.2%	$6.47	April 30, 2007	$2,326,731
Robert V. LaPenta (President and Chief Financial Officer)	1,142,857(2)	38.2%	$6.47	April 30, 2007	$2,326,731
Lawrence H. Schwartz (Vice President)	17,000	0.6%	$6.47	July 1, 2007	$ 17,571
Jimmie V. Adams (Vice President)	15,000	0.5%	$6.47	July 1, 2007	$ 15,504
Robert RisCassi (Vice President)	15,000	0.5%	$6.47	July 1, 2007	$ 15,504

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(1) The grant-date valuation of the options was calculated using the minimum value method described in SFAS No. 123. The minimum value is computed as the current price of stock at the grant date reduced to exclude the present value of any expected dividends during the option's expected life minus the present value of the exercise price, and does not consider the expected volatility of the price of the stock underlying the option. The material assumptions underlying the computations are: an average discount rate 6.3%; a dividend yield of 0% and a weighted average expected option life of 5.49 years, with the option lives ranging from 2 years to 10 years.
(2) Half of the options granted consists of Time Options and half consists of Performance Options. See "--Employment Agreements" for descriptions of the terms of these options.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FY-END OPTION VALUES

NAME AND PRINCIPAL POSITION	SHARES ACQUIRED ON EXERCISES (#)	VALUE REALIZED ($)	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT FY-END(1)		VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT FY-END	
			EXERCISEABLE	UNEXERCISABLE	EXERCISABLE	UNEXERCISABLE
Frank C. Lanza (Chairman and Chief Executive Officer)....................	--	--	--	1,142,857	--	$1,748,571
Robert V. LaPenta (President and Chief Financial Officer)	--	--	--	1,142,857	--	1,748,571
Lawrence H. Schwartz (Vice President)	--	--	--	17,000	--	26,010
Jimmie V. Adams (Vice President)	--	--	--	15,000	--	22,950
Robert RisCassi (Vice President)	--	--	--	15,000	--	22,950

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(1) At December 31, 1997, none of the outstanding options were exercisable.

PENSION PLAN

The following table shows the estimated annual pension benefits payable under the L-3 Communications Corporation Pension Plan and Supplemental Employee Retirement Plan to a covered participant upon retirement at normal retirement age, based on the career average compensation (salary and bonus) and years of credited service with the Company.

CAREER AVERAGE COMPENSATION	YEARS OF CREDITED SERVICE				
	15	20	25	30	35
$125,000....................	$ 18,981	$ 24,937	$ 29,833	$ 33,856	$ 37,164
150,000....................	23,172	30,408	36,355	41,243	45,260
175,000....................	27,364	35,879	42,877	48,629	53,357
200,000....................	31,556	41,349	49,399	56,015	61,454
225,000....................	35,747	46,820	55,921	63,402	69,550
250,000....................	39,939	52,291	62,444	70,788	77,647
300,000....................	48,322	63,233	75,488	85,561	93,840
400,000....................	65,089	85,116	101,577	115,106	126,226
450,000....................	73,472	96,057	114,621	129,879	142,420
500,000....................	81,855	106,999	127,665	144,651	158,613
750,000....................	123,772	161,707	192,887	218,515	239,579

As of December 31, 1997, the current annual compensation and current years of credited service (including for Messrs. LaPenta, Adams and RisCassi, years of credited service as an employee of Loral and Lockheed Martin) for each of the following persons were: Mr. Lanza, $750,000 and one year; Mr. LaPenta, $500,000 and 26 years; Mr. Adams, $216,011 and 5 years; Mr. RisCassi, $172,016 and 4 years; and Mr. Schwartz, $229,000 and one year. Compensation covered under the pension plans includes amounts reported as salary and bonus in the Summary Compensation Table.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Board of Directors of Holdings established a Compensation Committee in June 1997. During the 1997 fiscal year, Messrs. Robert Millard, Steven Berger and John Montague served as members of the Compensation Committee. None of these individuals has served at any time as an officer or employee of Holdings or L-3 Communications. Mr. Berger resigned from Holdings' Board of Directors and the Compensation Committee in January 1998 and Mr. Washkowitz was appointed to the Compensation Committee in March 1998. Prior to the establishment of the Compensation Committee, all decisions relating to executive compensation were made by Holdings' Board of Directors. Messrs. Millard and Montague are affiliated with the Lehman Partnership which, assuming the consummation of the Common Stock Offering and full exercise of the over-allotment option, holds 37.4% of the Common Stock and is a party to the Stockholders Agreement. Pursuant to the Stockholders Agreement, the Lehman Partnership has the right, from time to time on or after the 180-day period following that completion of the initial public offering and subject to certain conditions, to require the Company to register under the Securities Act shares of Common Stock held by them. The Lehman Partnership has the right to request up to four demand registrations and also has piggyback registration rights. The Company has agreed in the Stockholders Agreement to pay expenses in connection with, among other things, (i) up to three demand registrations requested by the Lehman Partnership and (ii) any registration in which the existing stockholders participate through piggyback registration rights granted under such agreement. The Stockholders Agreement also provides that Lehman Brothers Inc. has the exclusive right to provide investment banking services to Holdings for the five-year period after the closing of the L-3 Acquisition (except that the exclusivity period is three years as to cash acquisitions undertaken by L-3) so long as the Lehman Partnership owns at least 10% of the outstanding Common Stock. In the event that Lehman Brothers Inc. agrees to provide any investment banking services to L-3, it will be paid fees that are mutually agreed upon based on similar transactions and practices in the investment banking industry.

No executive officer of Holdings or L-3 Communications serves as a member of the board of directors or compensation committee of any entity which has one or more executive officers serving as a member of Holdings' Board of Directors or Compensation Committee.

1997 STOCK OPTION PLAN

In April 1997, Holdings adopted the 1997 Option Plan for Key Employees of Holdings (the "1997 Stock Option Plan") which authorizes the Compensation Committee to grant options to key employees of Holdings and its subsidiaries. On March 10, 1998, the 1997 Stock Option Plan was amended to increase the shares available for option grants to 4,255,815 shares of Common Stock, of which 3,246,084 had been granted as of March 31, 1998. The Compensation Committee of the Board of Directors of Holdings, in its sole discretion, determines the terms of option agreements, including without limitation the treatment of option grants in the event of a change of control. The 1997 Stock Option Plan remains in effect for 10 years following the date of approval.

On April 30, 1997, Holdings granted each of Messrs. Lanza and LaPenta options to purchase 1,142,857 shares of Common Stock. See "--Employment Agreements" for a description of the terms of these grants. On July 1, 1997 and November 11, 1997, the Compensation Committee authorized grants of options to employees of Holdings and its subsidiaries, other than Messrs. Lanza and LaPenta, to acquire an aggregate of 689,500 shares of Common Stock at an exercise price of $6.47 per share (the "Employee Options"). Each Employee Option was granted pursuant to an individual agreement that provides (i) 20% of shares underlying the option will become exercisable on the first anniversary of the grant date, 50% will become exercisable on the second anniversary of the grant date and 30% will become exercisable on the third anniversary of the grant date; provided that, in the event of an initial public offering of Common Stock, 15% of the shares underlying the option (which would otherwise become exercisable on the second anniversary of the grant date) will become exercisable on the earlier to occur of (A) the completion of the initial public offering of the Common Stock and (B) the first anniversary of the grant date; (ii) all shares underlying the option will become exercisable upon certain events constituting a change of control; and (iii) the option will expire upon the earliest to occur of (A) the tenth anniversary of the grant date, (B) one year after termination of employment due to the optionee's death or permanent disability, (C) immediately upon termination of the optionee's employment for cause and (D) three months after termination of optionee's employment for any other reason. On March 2, 1998, each of Mr. Lanza and Mr. LaPenta exercised options to acquire 228,571 shares of Common Stock.

EMPLOYMENT AGREEMENTS

Holdings entered into an employment agreement (the "Employment Agreements") effective on April 30, 1997 with each of Mr. Lanza, Chairman and Chief Executive Officer of Holdings and L-3 Communications, who will receive a base salary of $750,000 per annum and appropriate executive level benefits, and Mr. LaPenta, President and Chief Financial Officer of Holdings and L-3 Communications, who will receive a base salary of $500,000 per annum and appropriate executive level benefits. The

Employment Agreements provide for an initial term of five years, which will automatically renew for one-year periods thereafter, unless a party thereto gives notice of its intent to terminate at least 90 days prior to the expiration of the term.

Upon a termination without cause or resignation for good reason, Holdings will be obligated, through the end of the term, to (i) continue to pay the base salary and (ii) continue to provide life insurance and medical and hospitalization benefits comparable to those provided to other senior executives; provided, however, that any such coverage shall terminate to the extent that Mr. Lanza or Mr. LaPenta, as the case may be, is offered or obtains comparable benefits coverage from any other employer. The Employment Agreements provide for confidentiality during employment and at all times thereafter. There is also a noncompetition and non-solicitation covenant which is effective during the employment term and for one year thereafter; provided, however, that if the employment terminates following the expiration of the initial term, the noncompetition covenant will only be effective during the period, if any, that Holdings pays the severance described above.

Holdings has granted each of Messrs. Lanza and LaPenta (collectively, the "Equity Executives") nonqualified options to purchase, at $6.47 per share of Common Stock, 1,142,857 shares of Holdings' initial fully-diluted common stock. In each case, half of the options will be "Time Options" and half will be "Performance Options" (collectively, the "Options"). The Time Options will become exercisable with respect to 20% of the shares subject to the Time Options on March 2, 1998 and each of the second through fifth anniversaries of the closing of the L-3 Acquisition (the "Closing") if employment continues through and including such date. The Performance Options will become exercisable nine years after the Closing, but will become exercisable earlier with respect to up to 20% of the shares subject to the Performance Options on March 2, 1998 and each of the second through fifth anniversaries of the Closing, to the extent certain EBITDA targets are achieved. The Options will become fully exercisable under certain circumstances, including a change in control. The Option term is ten years from the Closing; except that (i) if the Equity Executive is fired for cause or resigns without good reason, the Options expire upon termination of employment; (ii) if the Equity Executive is fired without cause, resigns for good reason, dies, becomes disabled or retires, the Options expire one year after termination of employment. Unexercisable Options will terminate upon termination of employment, unless acceleration is expressly provided for. Upon a change of control, Holdings may terminate the Options, so long as the Equity Executives are cashed out or permitted to exercise their Options prior to such change of control.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

All outstanding capital stock of L-3 Communications is owned by Holdings.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Under the L-3 Acquisition Agreement, Lockheed Martin has agreed to indemnify L-3, subject to certain limitations, for Lockheed Martin's breach of representations and warranties and L-3 has assumed certain obligations relating to environmental matters and benefits plans. These obligations include certain on-site and off-site environmental liabilities related to events or activities of the Businesses occurring prior to the L-3 Acquisition. Lockheed Martin has agreed to indemnify Holdings, subject to certain limitations, for its breach of (i) non-environmental representations and warranties up to $50 million (subject to a $5 million threshold) and (ii) for the first eight years following April 1997, to pay 50% of all costs incurred by the Company above those reserved for on the Company's balance sheet at April 1997 relating to certain Company-assumed environmental liabilities and, for the seven years thereafter, 40% of certain reasonable operation and maintenance costs relating to any environmental remediation projects undertaken in the first eight years (subject to a $6 million threshold).

Lockheed Martin provides to certain divisions of the Company certain management information systems services at Lockheed Martin's fully-burdened cost but without profit. Holdings, L-3 Communications and Lockheed Martin have entered into certain subleases of real property and cross-licenses of intellectual property.

In addition, Holdings and Lockheed Martin have entered into a Limited Noncompetition Agreement (the "Noncompetition Agreement") which, for up to three years from April 1997, in certain circumstances, precludes Lockheed Martin from engaging in the sale of any products that compete with the products of the Company that are set forth in the Noncompetition Agreement for specifically identified application of the products. Under the Noncompetition Agreement, Lockheed Martin is prohibited, with certain exceptions, from acquiring any business engaged in the sale of the specified products referred to in the preceding sentence, although Lockheed Martin may acquire such a business under circumstances where the exceptions do not apply provided that it offers to sell such business to L-3 within 90 days of its acquisition. The Noncompetition Agreement does not, among other exceptions, (i) apply to businesses operated and managed by Lockheed Martin on behalf of the Government, (ii) prohibit Lockheed Martin from engaging in any existing businesses and planned businesses as of the closing of the L-3 Acquisition or businesses that are reasonably related to existing or planned businesses or (iii) apply to selling competing products where such products are part of a larger system sold by Lockheed Martin.

In the ordinary course of business L-3 sells products to Lockheed Martin and its affiliates. Pro forma and aggregated sales to Lockheed Martin were $81.6 million, $70.7 million and $25.9 million for the years ended December 31, 1997, 1996 and 1995, respectively. See Note 19 to the Consolidated (Combined) Financial Statements.

Sales of products to Lockheed Martin, excluding those under existing intercompany work transfer agreements, are made on terms no less favorable than those which would be available from non-affiliated third party customers. A significant portion of L-3's sales to Lockheed Martin are either based on competitive bidding or catalog prices.

STOCKHOLDERS AGREEMENT

Holdings, Lockheed Martin, the Lehman Partnership and Messrs. Lanza and LaPenta entered into a stockholders agreement (the "Stockholders Agreement") which, except the terms relating to (i) the registration rights, (ii) provision of services by Lehman Brothers Inc. and (iii) the standstill agreement by Lockheed Martin, terminates upon the consummation of the Common Stock Offering. Prior to the consummation of the Common Stock Offering, the Lehman Partnership is entitled to designate a majority of the members of the Board of Directors provided that it holds at least 35% of the capital stock of Holdings and remains the single largest shareholder.

Pursuant to the Stockholders Agreement, certain of the existing stockholders have the right, from time to time on or after the 180-day period following the completion of the initial public offering and subject to certain conditions, to require the Company to register under the Securities Act shares of Common Stock held by them. Lockheed Martin, the Lehman Partnership and each of the Senior Management has three, four and one demand registration rights, respectively. In addition, the Stockholders Agreement also provides certain existing stockholders with certain piggyback registration rights. The Stockholders Agreement provides, among other things, that the Company will pay expenses in connection with (i) up to two demand registrations requested by Lockheed Martin, up to three demand registrations requested by the Lehman Partnership and the two demand registrations requested by the Senior Management and (ii) any registration in which the existing stockholders participate through piggyback registration rights granted under such agreement.

The Stockholders Agreement also provides that Lehman Brothers Inc. has the exclusive right to provide investment banking services to Holdings for the five-year period after the closing of the L-3 Acquisition (except that the exclusivity period is three years as to cash acquisitions undertaken by L-3) so long as the Lehman Partnership owns at least 10% of the Outstanding Common Stock. In the event that Lehman Brothers Inc. agrees to provide any investment banking services to L-3, it will be paid fees that are mutually agreed upon based on similar transactions and practices in the investment banking industry.

Under the Stockholders Agreement Lockheed Martin is subject to a standstill arrangement which generally prohibits any increase in its share ownership percentage over 34.9%.

PART IV

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

(a) FINANCIAL STATEMENTS

The financial statements and notes to the Consolidated (Combined) Financial Statements are referred to in Item 8.

(b) ADDITIONAL FINANCIAL INFORMATION

None

(c) REPORTS FILED ON FORM 8-K

None

(d) EXHIBITS (NUMBERED IN ACCORDANCE WITH ITEM 601 OF REGULATION S-K)

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
*3.1	Certificate of Incorporation.
*3.2	By-Laws of L-3 Communications Corporation.
*10.1	Credit Agreement, dated as of April 30, 1997 among L-3 Communications Corporation and lenders named therein, as amended.
*10.2	Indenture dated as of April 30, 1997 between L-3 Communications Corporation and The Bank of New York, as Trustee.
*10.3	Stockholders Agreement dated as of April 30, 1997 among L-3 Communications Corporation and the stockholders parties thereto.
*10.4	Transaction Agreement dated as of March 28, 1997, as amended, among Lockheed Martin Corporation, Lehman Brothers Capital Partners III, L.P., Frank C. Lanza, Robert V. LaPenta and L-3 Communications Holdings, Inc.
*10.5	Employment Agreement dated April 30, 1997 between Frank C. Lanza and L-3 Communications Holdings, Inc.
*10.51	Employment Agreement dated April 30, 1997 between Robert V. LaPenta and L-3 Communications Holdings, Inc.
*10.6	Lease dated as of April 29, 1997 among Lockheed Martin Tactical Systems, Inc., L-3 Communications Corporation and KSL, Division of Bonneville International.
*10.61	Lease dated as of April 29, 1997 among Lockheed Martin Tactical Systems, L-3 Communications Corporation and Unisys Corporation.
*10.62	Sublease dated as of April 29, 1997 among Lockheed Martin Tactical Systems, Inc., L-3 Communications Corporation and Unisys Corporation.
*10.7	Limited Noncompetition Agreement dated April 30, 1997 between Lockheed Martin Corporation and L-3 Communications Corporation.
*10.8	Asset Purchase Agreement dated as of December 19, 1997 between L-3 Communications Corporation and California Microwave, Inc.
*10.81	Asset Purchase Agreement dated as of February 10, 1998 between FAP Trust and L-3 Communications Corporation.
*10.82	Asset Purchase Agreement dated as of March 30, 1998 among AlliedSignal Inc., AlliedSignal Technologies, Inc., AlliedSignal Deutschland GMBH and L-3 Communications Corporation.
*10.9	Form of Stock Option Agreement for Employee Options.
*10.91	Form of 1997 Stock Option Plan for Key Employees.

EXHIBIT NO.	DESCRIPTION OF EXHIBIT
*10.10	L-3 Communications Corporation Pension Plan.
12	Ratio of earnings to fixed charges.
*24	Powers of Attorney of L-3 Communications Corporation.
99.1	Unaudited Pro Forma Condensed Consolidated Financial Information.
99.2	Satellite Transmission Systems Division of California Microwave, Inc. Unaudited Condensed Financial Statements, Six months ended December 31, 1996 and 1997.
99.3	Satellite Transmission Systems Division of California Microwave, Inc. Financial Statements as of June 30, 1997 and 1996 and for the years ended June 30, 1997, 1996 and 1995.
99.4	ILEX Systems, Inc. and Subsidiary Consolidated Financial Statements, December 31, 1997.
99.5	AlliedSignal Ocean Systems Combined Financial Statements as of December 31, 1997 and for the year ended December 31, 1997.

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* Incorporated by reference from the Company's Registration Statement on Form S-1, as amended (File no. 333-46983).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 14, 1998.

L-3 COMMUNICATIONS CORPORATION

By: /s/ Robert V. LaPenta

Name: Robert V. LaPenta
Title: President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on May 14, 1998 and in the capacities indicated.

SIGNATURE	TITLE
/s/ Frank C. Lanza Frank C. Lanza	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Robert V. LaPenta Robert V. LaPenta	President, Chief Financial Officer (Principal Financial Officer) and Director
/s/ Michael T. Strianese Michael T. Strianese	Vice President--Finance and Controller (Principal Accounting Officer)
* David J. Brand	Director
* Thomas A. Corcoran	Director
* Alberto M. Finali	Director
* Eliot M. Fried	Director
* Frank H. Menaker, Jr.	Director
* Robert B. Millard	Director
* John E. Montague	Director
* Alan H. Washkowitz	Director

By:/s/ Michael T. Strianese

Attorney-in-Fact

POWER OF ATTORNEY

We, the undersigned directors and officers of L-3 Communications Corporation, do hereby constitute and appoint Michael T. Strianese, Christopher C. Cambria and David J. Brand, or any of them, our true and lawful attorneys and agents, to do any and all acts and things in our name and on our behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys and agents, or either of them, may deem necessary or advisable to enable said Corporation to comply with the Securities Exchange Act of 1934 and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report, including specifically, but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments (including post-effective amendments) hereto and we do hereby ratify and confirm all that said attorneys and agents, or either of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed on the 14th day of May, 1998 by the following persons in the capacities indicated:

SIGNATURE	TITLE
/s/ Frank C. Lanza Frank C. Lanza	Chairman, Chief Executive Officer and Director (Principal Executive Officer)
/s/ Robert V. LaPenta Robert V. LaPenta	President, Chief Financial Officer (Principal Financial Officer) and Director
/s/ Michael T. Strianese Michael T. Strianese	Vice President--Finance and Controller (Principal Accounting Officer)
/s/ David J. Brand David J. Brand	Director
/s/ Thomas A. Corcoran Thomas A. Corcoran	Director
/s/ Albert M. Finali Albert M. Finali	Director
/s/ Eliot M. Fried Eliot M. Fried	Director
/s/ Frank H. Menaker, Jr. Frank H. Menaker, Jr.	Director
/s/ Robert B. Millard Robert B. Millard	Director
/s/ John E. Montague John E. Montague	Director
/s/ Alan H. Washkowitz Alan H. Washkowitz	Director

EXHIBIT INDEX

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*10.9	Form of Stock Option Agreement for Employee Options.	
*10.91	Form of 1997 Stock Option Plan for Key Employees.	
*10.10	L-3 Communications Corporation Pension Plan.	
12	Ratio of earnings to fixed charges.	
*24	Powers of Attorney of L-3 Communications Corporation.	
99.1	Unaudited Pro Forma Condensed Consolidated Financial Information.	

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99.5	AlliedSignal Ocean Systems Combined Financial Statements as of December 31, 1997 and for the year ended December 31, 1997.	

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* Incorporated by reference from the Company's Registration Statement on Form S-1, as amended (File no. 333-46983).

EXHIBIT 12

L-3 COMMUNICATIONS CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(IN THOUSANDS, EXCEPT FOR RATIO DATA)

	COMPANY	
	PRO FORMA YEAR ENDED DECEMBER 31, 1997	NINE MONTHS ENDED DECEMBER 31, 1997
Earnings:		
Income before income taxes.......	$15,900	$22,992
Add:		
Interest expense ...	42,400	29,884
Interest component of rent expense ...	5,133	3,445
Earnings............	$63,433	$56,321
Fixed Charges:		
Interest expense ...	$42,400	$29,884
Interest component of rent expense ...	5,133	3,445
Fixed Charges........	$47,533	$33,329
Ratio of earnings to fixed charges.......	1.3x	1.7x

(RESTUBBED TABLE CONTINUED FROM ABOVE)

	PREDECESSOR COMPANY					
	THREE MONTHS ENDED MARCH 31,	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED DECEMBER 31,	THREE MONTHS ENDED MARCH 31,
	1997	1996	1995	1994	1993	1993
Earnings:						
Income before income taxes.......	$ (505)	$19,494	$ 174	$ 2,929	$ 8,300	$5,100
Add:						
Interest expense ...	8,441	24,197	4,475	5,450	4,100	--
Interest component of rent expense ...	851	2,832	1,591	1,866	1,400	467
Earnings............	$8,787	$46,523	$6,240	$10,245	$13,800	$5,567
Fixed Charges:						
Interest expense ...	$8,441	$24,197	$4,475	$ 5,450	$ 4,100	--
Interest component of rent expense ...	851	2,832	1,591	1,866	1,400	467
Fixed Charges........	$9,292	$27,029	$6,066	$ 7,316	$ 5,500	$ 467
Ratio of earnings to fixed charges.......	--(a)	1.7x	1.0x	1.4x	2.5x	n.a.

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(a) Earnings were insufficient to cover fixed charges by $0.5 million for the three months ended March 31, 1997.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The following unaudited pro forma financial information gives effect to the L-3 Acquisition, the 1998 Acquisitions and the Offerings (collectively, the "Transactions"). The Offerings include the Notes Offering and the contribution by Holdings to the Company of the proceeds of the Common Stock Offering. The unaudited pro forma condensed consolidated statement of operations gives effect to the Transactions as if they had occurred as of January 1, 1997. The unaudited pro forma condensed consolidated balance sheet gives effect to the Transactions as if they had occurred as of December 31, 1997. The pro forma financial information is based on (i) the consolidated financial statements of the Company for the nine-month period ended December 31, 1997, (ii) the Combined Statement of Operations of the Predecessor Company for the three-month period ended March 31, 1997 and (iii) the financial statements of the 1998 Acquisitions for the year ended December 31, 1997, using the purchase method of accounting and the assumptions and adjustments in the accompanying notes to the unaudited pro forma condensed consolidated financial statements.

The pro forma adjustments are based upon preliminary estimates of purchase prices and the related purchase price allocations for the 1998 Acquisitions. Actual adjustments will be based on final appraisals and other analyses of fair values and adjustments of final purchase prices. Management does not expect that differences between preliminary and final allocations will have a material impact on the Company's pro forma financial position or results of operations. The pro forma statement of operations does not reflect any cost savings that management of the Company believes would have resulted had the Transactions occurred on January 1, 1997. The pro forma financial information should be read in conjunction with (i) the audited Consolidated (Combined) Financial Statements of the Company and the Predecessor Company as of December 31, 1997 and for the nine months ended December 31, 1997 and the three months ended March 31, 1997, (ii) the audited financial statements of STS for the year ended June 30, 1997, (iii) the unaudited condensed financial statements of STS as of December 31, 1997 and for the six months ended December 31, 1997 and 1996, (iv) the audited consolidated financial statements of ILEX as of December 31, 1997 and for the year ended December 31, 1997 and (v) the audited combined financial statements of Ocean Systems as of December 31, 1997 and for the year ended December 31, 1997, all of which are included elsewhere herein. The unaudited pro forma condensed financial information may not be indicative of the financial position and results of operations of the Company that actually would have occurred had the Transactions been in effect on the dates indicated or the financial position and results of operations that may be obtained in the future.

UNADUITED PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS DATA
YEAR ENDED DECEMBER 31, 1997

	COMPANY NINE MONTHS ENDED DECEMBER 31, 1997	PREDECESSOR COMPANY THREE MONTHS ENDED MARCH 31, 1997(1)	PRO FORMA ADJUSTMENTS L-3 ACQUISITION(1)
	(IN MILLIONS, EXCEPT PER SHARE DATA)		
STATEMENT OF OPERATIONS:			
Sales	$546.5	$158.9	$(1.8)
Costs and expenses	495.0	151.0	(7.6)
Operating income (loss)	51.5	7.9	5.8
Interest and investment income (expense)	1.4	--	--
Interest expense	29.9	8.4	1.5
Income (loss) before income taxes	23.0	(0.5)	4.3
Income tax expense (benefit)	10.7	(0.2)	--
Net income (loss)	$ 12.3	$ (0.3)	$ 4.3

(RESTUBBED TABLE CONTINUED FROM ABOVE)

	PRO FORMA L-3 ACQUISITION	1998 ACQUISITIONS(3)	PRO FORMA ADJUSTMENTS 1998 ACQUISITIONS(2)	THE OFFERINGS	PRO FORMA
STATEMENT OF OPERATIONS:					
Sales	$703.6	$190.4	$ --	$ --	$894.0
Costs and expenses	638.4	196.3	0.9 (4)	--	835.6
Operating income (loss)	65.2	(5.9)	(0.9)	--	58.4
Interest and investment income (expense)	1.4	(0.1)		(1.4)(5)	(0.1)
Interest expense	39.8	0.5	4.8 (5)	(2.7)(5)	42.4
Income (loss) before income taxes	26.8	(6.5)	(5.7)	1.3	15.9
Income tax expense (benefit)	10.5	(4.0)	(2.2)(6)	0.4 (6)	4.7
Net income (loss)	$ 16.3	$ (2.5)	$(3.5)	$ 0.9	$ 11.2

See notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 1997

	COMPANY	1998 ACQUISITIONS(3)	PRO FORMA ADJUSTMENTS 1998 ACQUISITIONS	PRO FORMA COMPANY BEFORE THE OFFERINGS	THE OFFERINGS(5)	PRO FORMA
			($ IN MILLIONS)			
ASSETS						
Current assets:						
Cash and cash equivalents............	$ 77.5	$ 4.9	$(82.4)(4)	--	$ 40.0	$ 40.0
Contracts in process.................	167.2	85.2	(2.5)(4)	$249.9	--	249.9
Other current assets.................	22.7	2.0	--	24.9	--	24.7
Total current assets...............	267.4	92.1	(84.9)	274.6	40.0	314.6
Property, plant and equipment, net ...	83.0	24.9	(3.4)(4)	104.5	--	104.5
Intangibles, primarily cost in excess of net assets acquired, net of amortization.........................	297.5	2.2	86.8 (4)	386.5	--	386.5
Other assets..........................	55.5	2.5	12.0 (6)	70.0	5.5	75.5
Total assets.......................	$703.4	$121.7	$ 10.5	$835.6	$ 45.5	$881.1
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current liabilities:						
Current portion of long-term debt ...	$ 5.0	$ 0.3	--	$ 5.3	$ (3.8)	$ 1.5
Accounts payable and accrued expenses............................	68.6	30.6	--	99.2	--	99.2
Customer advances and amounts in excess of costs incurred............	34.5	16.2	--	50.7	--	50.7
Other current liabilities............	27.5	6.2	(2.2)	31.5	--	31.5
Total current liabilities..........	135.6	53.3	(2.2)	186.7	(3.8)	182.9
Pension, postretirement benefits and other liabilities....................	43.1	11.0	--	54.1	--	54.1
Revolving credit facility............	--	--	$ 68.8 (2)	68.8	(68.8)	--
Term loan facilities..................	167.0	--	--	167.0	(128.4)	38.6
Senior subordinated notes.............	225.0	--	--	225.0	150.0	375.0
Industrial development bond...........	--	1.3	--	1.3		1.3
Shareholders' equity..................	132.7	56.1	(56.1)	132.7	96.5	229.2
Total liabilities and shareholders' equity.............	$703.4	$121.7	$ 10.5	$835.6	$ 45.5	$881.1

See notes to Unaudited Pro Forma Condensed Consolidated Financial Statements

NOTES TO UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The following facts and assumptions were used in determining the pro forma effect of the Transactions.

1. The Company's historical financial statements reflect the results of operations of the Company since the effective date of the L-3 Acquisition, April 1, 1997, and the Predecessor Company historical financial statements reflect the results of operations of the Predecessor Company for the three months ended March 31, 1997. The adjustments made to the pro forma statement of operations for the three months ended March 31, 1997 and for the year ended December 31, 1997, relating to the L-3 Acquisition are: (a) the elimination of $1.8 million of sales and $1.8 million of costs and expenses related to the Hycor business, which was acquired as part of the L-3 Acquisition and which has been accounted for as "net assets of acquired business held for sale", (b) a reduction to costs and expenses of $0.8 million to record amortization expenses on the excess of the L-3 Acquisition purchase price over net assets acquired of $303.2 million over 40 years, net of the reversal of amortization expenses of intangibles included in the Predecessor Company historical financial statements, (c) a reduction to costs and expenses of $0.6 million to record estimated pension cost on a separate company basis net of the reversal of the allocated pension cost included in the Predecessor Company historical financial statements, (d) a net increase to interest expense of $1.5 million, comprised of a $0.2 million allocated interest expense reduction related to the Hycor business and a net $1.7 million increase, reflecting pro forma interest expense of $10.2 million based on actual borrowings of $400.0 million and effective cost of borrowing rates incurred by the Company to finance the L-3 Acquisition less interest expense of approximately $8.5 million included in the historical financial statements of the Predecessor Company, and (e) the reversal of a $4.4 million noncash compensation charge related to the initial capitalization of the Company included in the Company's historical results of operations for the nine months ended December 31, 1997 which is nonrecurring in nature. A statutory (federal, state and foreign) tax rate of 39.0% was assumed on these pro forma adjustments except for adjustment (e) where no tax effect has been reflected.

2. On February 5, 1998, L-3 Communications purchased the assets of STS for $27.0 million of cash. On March 4, 1998, L-3 Communications purchased substantially all the assets of ILEX for $49.2 million of cash (net of acquired cash of $2.7 million) plus additional consideration contingent upon post-acquisition performance of ILEX. On March 30, 1998, L-3 Communications purchased the assets of Ocean Systems for $67.5 million of cash. The purchase prices are subject to adjustment based upon the actual closing net assets of STS and ILEX as defined. For purposes of the pro forma financial information, the aggregate purchase prices (including estimated expenses of $2.6 million) for the 1998 Acquisitions of $146.3 million were assumed to be financed using cash on hand of $77.5 million and initially using $68.8 million of borrowings under the Revolving Credit Facility. See Note 5 for the pro forma effects of the Offerings on interest expense and long-term debt including the Revolving Credit Facility.

3. The pro forma statement of operations and the pro forma balance sheet include the following historical financial data for the 1998 Acquisitions. Such data have been derived from each entity's historical financial statements included elsewhere herein.
   The pro forma statement of operations includes the following:

	YEAR ENDED DECEMBER 31, 1997			
	STS(A)	ILEX	OCEAN SYSTEMS	1998 ACQUISITIONS
	($ IN MILLIONS)			
Sales	$53.9	$63.5	$73.0	$190.4
Costs and expenses	61.7	55.9	78.7	196.3
Operating (loss) income	(7.8)	7.6	(5.7)	(5.9)
Interest and investment income (expense)	--	(0.2)	0.1	(0.1)
Interest expense	--	--	0.5	0.5
Income (loss) before income taxes	(7.8)	7.4	(6.1)	(6.5)
Income tax (benefit) provision	(2.1)	0.5	(2.4)	(4.0)
Net (loss) income	$(5.7)	$ 6.9	$(3.7)	$ (2.5)

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(a) Represents fiscal year ended June 30, 1997 plus the six month period ended December 31, 1997 minus the six month period ended December 31, 1996.

For the 1998 Acquisitions, the pro forma balance sheet includes the following historical financial data:

	STS	ILEX	OCEAN SYSTEMS	1998 ACQUISITIONS
		($ IN MILLIONS)		
ASSETS				
Current assets:				
Cash and cash equivalents	--	$ 4.9	--	$ 4.9
Contracts in process	$32.6	13.2	$39.4	85.2
Other current assets	--	0.3	1.7	2.0
Total current assets	32.6	18.4	41.1	92.1
Property, plant and equipment, net	7.2	0.9	16.8	24.9
Intangibles, primarily cost in excess of net assets acquired, net of amortization	--	0.4	1.8	2.2
Other assets	--	0.1	2.4	2.5
Total assets	$39.8	$19.8	$62.1	$121.7
LIABILITIES AND NET ASSETS				
Current liabilities:				
Current portion of long-term debt	$ 0.2	$ 0.1	--	$ 0.3
Accounts payable and accrued expenses	6.5	5.4	$18.7	30.6
Customer advances and amounts in excess of costs incurred	--	--	16.2	16.2
Other current liabilities	3.7	2.5	--	6.2
Total current liabilities	10.4	8.0	34.9	53.3
Pension, postretirement benefits and other liabilities	--	--	11.0	11.0
Industrial development bond	1.3	--	--	1.3
Net assets	28.1	11.8	16.2	56.1
Total liabilities and net assets	$39.8	$19.8	$62.1	$121.7

4. The aggregate estimated excess of purchase price over fair value of net assets acquired related to the 1998 Acquisitions is $89.0 million, comprised of $37.2 million and $51.8 million, respectively, for ILEX and Ocean Systems and is being amortized over 40 years resulting in a pro forma charge of $2.2 million per annum. Based upon the preliminary estimates of fair value, the acquisition of STS resulted in no goodwill being recorded since the purchase price was equal to the net assets acquired.
   Adjustments to costs and expenses in the pro forma statements of operations relating to the 1998 Acquisitions were comprised of the following:

		YEAR ENDED DECEMBER 31, 1997
		($ IN MILLIONS)
(a)	Amortization expense of estimated purchase cost in excess of net assets	$ 2.2
(b)	Elimination of goodwill amortization expense included in the historical financial statements for the 1998 Acquisitions	(2.1)
(c)	Estimated annual rent expense on the Sylmar facility of Ocean Systems which will not be acquired by L-3 Communications	1.1
(d)	Elimination of depreciation expense on buildings and improvements on the Sylmar facility of Ocean Systems which will not be acquired by L-3 Communications	(0.3)
	Total increase to costs and expenses	$ 0.9

5. The pro forma adjustments for the 1998 Acquisitions, reflecting the Company before the Offerings, include (a) the elimination of $1.4 million of interest income included in the historical financial statements of the Company to reflect the use of cash on hand to fund partially the purchase price for the 1998 Acquisitions and (b) an increase to interest expense of $4.8 million on debt incurred to fund the remaining purchase prices for the 1998 Acquisitions. Pro forma adjustments for the Offerings reflect a decrease to interest expense of $2.7 million to reflect the reduction in debt from the use of proceeds. The details of interest expense, after such pro forma adjustments follow:

	YEAR ENDED DECEMBER 31, 1997	
	PRO FORMA COMPANY BEFORE THE OFFERINGS	PRO FORMA
	($ IN MILLIONS)	
Interest on Revolving Credit Facility (7.625% on $68.8 million)...	$ 5.2	--
Interest on the 1997 Notes (10.375% on $225.0 million)	23.3	$23.3
Interest on the Notes (assumed 8.25% on $150.0 million)	--	12.4
Interest on borrowings under Term Loan Facilities (8.0% on $172.0 million and $39.8 million, respectively).............	13.8	3.1
Interest on industrial development bond (4.0% on $1.3 million)...	0.1	0.1
Commitment fee of 0.5% on unused portion of the Revolving Credit Facility (0.5% on $131.2 million and $200.0 million, respectively)	0.7	1.0
Amortization of deferred debt issuance costs.................	2.0	2.5
Total pro forma interest expense	$45.1	$42.4

In accordance with SEC regulations, the pro forma statement of operations does not reflect interest income on the $40.0 million cash balance in the pro forma balance sheet resulting from the Offerings.

The Offerings include the Notes Offering and the contribution to the Company by Holdings of the proceeds of the Common Stock Offering. The net proceeds from the Offerings of $241.0 million, comprised of $150.0 million from the Notes Offering less estimated debt issuance costs of $5.5 million, and $96.5 million from the contribution of the net proceeds of the Common Stock Offering reflecting $104.5 million less estimated issuance costs of $8.0 million, have been assumed to reduce borrowings under the Revolving Credit Facility and Term Loan Facilities by $201.0 million and increase cash and cash equivalents by $40.0 million. On a pro forma basis the balance sheet reflects the following adjustments and resulting balances:

	INCREASE (DECREASE)
	($ IN MILLIONS)
Cash and cash equivalents	$ 40.0
Senior subordinated notes (proceeds from the Notes)	150.0
Other assets (deferred debt issuance costs)..............	$ 5.5
The net proceeds from the Offerings will be used to reduce borrowings and were recorded as follows:	
Current portion of Term Loan Facilities.................	$ (3.8)
Revolving Credit Facility...............................	(68.8)
Long term portion of Term Loan Facilities...............	(128.4)
	$(201.0)
Shareholders' equity:	
Contribution by Holdings of proceeds from the Common Stock offering, less expenses............................	$ 96.5

6. The pro forma adjustments were tax-effected, as appropriate using a statutory (federal, state and foreign) tax rate of 39.0%.

EXHIBIT 99.2

SATELLITE TRANSMISSION SYSTEMS DIVISION OF CALIFORNIA MICROWAVE, INC.
UNAUDITED CONDENSED FINANCIAL STATEMENTS
As of December 31, 1997 and
for the six months ended December 31, 1996 and 1997

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
BALANCE SHEET (UNAUDITED)
DECEMBER 31, 1997
(In Thousands)

ASSETS	
Current assets:	
Accounts receivable, less $554 allowance for doubtful accounts	$ 22,204
Inventories	10,382
Total current assets	32,586
Property, plant and equipment, at cost	21,663
Less accumulated depreciation and amortization	(14,467)
Net property and equipment	7,196
Other assets	15
Total assets	$ 39,797
LIABILITIES AND DIVISION EQUITY	
Current liabilities:	
Accounts payable	$ 6,508
Accrued liabilities	3,703
Current portion of long-term debt	200
Total current liabilities	10,411
Long-term debt	1,330
Total liabilities	11,741
Commitments	
Division equity	28,056
Total liabilities and Division equity	$ 39,797

See accompanying notes.

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
STATEMENTS OF OPERATIONS (UNAUDITED)
(In Thousands)

	SIX MONTHS ENDED DECEMBER 31	
	1997	1996
Net sales	$24,551	$ 38,770
Cost of products sold	23,226	42,530
Gross margin	1,325	(3,760)
Expenses:		
Research and development	712	721
Marketing and administration	5,123	8,064
Amortization of intangible assets	--	72
Total expenses	5,835	8,857
Operating loss	(4,510)	(12,617)
Interest expense	(43)	(70)
Interest income	--	5
Loss before income tax benefit	(4,553)	(12,682)
Allocated benefit from income taxes	1,639	4,185
Net loss	$(2,914)	$ (8,497)

See accompanying notes.

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
STATEMENTS OF CASH FLOWS (UNAUDITED)
(In Thousands)

	SIX MONTHS ENDED DECEMBER 31	
	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$(2,914)	$ (8,497)
Adjustments for noncash items:		
Amortization of intangible assets	--	72
Depreciation and amortization of property, plant and equipment	780	1,200
Loss on sale of assets	--	151
Provision for doubtful accounts	66	750
Changes in asset and liability accounts:		
Accounts receivable	6,053	16,124
Inventories	(2,644)	6,789
Prepaid expenses and other assets	85	213
Accounts payable	(1,256)	(10,238)
Accrued liabilities	132	(208)
Net cash provided by operations	302	6,356
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(160)	(1,072)
Proceeds from sale of building	--	1,617
Net cash provided by (used in) investing activities	(160)	545
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on long-term debt	(100)	(200)
Net cash provided to CMI	(42)	(6,701)
Net cash used in financing activities	(142)	(6,901)
Cash and cash equivalents	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the six month period for interest	$ 36	$ 32

See accompanying notes.

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
SIX MONTHS ENDED DECEMBER 31, 1996 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying unaudited financial statements include the operations of the Satellite Transmission Systems Division ("STS" or the "Division") of California Microwave, Inc. ("CMI" or the "Company"). The Division is a global satellite communication systems integrator providing hardware, software and services for turnkey projects to large commercial customers, principally domestic and foreign telephone companies and major common carriers and to the U.S. and foreign governments.

These financial statements are presented as if the Division had existed as an entity separate from CMI during the periods presented and include the historical assets, liabilities, sales and expenses that are directly related to the Division's operations. However, these financial statements are not necessarily indicative of the financial position and results of operations which would have occurred had the Division been an independent entity.

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six-month periods ended December 31, 1996 and 1997 are not necessarily indicative of the results that may be expected for the years ended June 30, 1997 and 1998. For further information, refer to the financial statements and footnotes thereto included in the Division's financial statements for the year ended June 30, 1997.

USE OF ESTIMATES; RISKS AND UNCERTAINTIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are used in determining the collectibility of accounts receivable, warranty costs, inventory realization, profitability on long-term contracts, restructuring reserves, recoverability of property, plant and equipment, and contingencies. Actual results could differ from estimates.

INVENTORIES AND COST OF PRODUCTS SOLD

Inventories are recorded at the lower of cost or market. Project inventories are transferred to cost of products sold at the time revenue is recognized based on the estimated total manufacturing costs and total contract prices under each contract. Losses on contracts are recognized in full when the losses become determinable. The cost of other inventories is generally based on standard costs which approximate actual costs determined by the first-in, first-out method.

2. INVENTORIES

Inventories consisted of the following:

	DECEMBER 31, 1997
	(IN THOUSANDS)
Projects in process	$ 9,351
Less: progress billings	1,547
	7,804
Product inventories, principally materials and supplies	2,578
Total	$10,382

3. CORPORATE ALLOCATIONS

CMI allocates corporate expenses on a value-added basis to each division, which CMI believes results in a reasonable allocation of such costs. The accompanying financial statements reflect charges for general corporate administrative expenses incurred by CMI which amounted to approximately $832,000 and $793,000 for the six months ended December 31, 1996 and 1997, respectively.

No interest is allocated by CMI to the Division.

The Division is charged for its proportional share of CMI's self-insured medical plan. Such charges amounted to $1,015,000 and $732,000 for the six months ended December 31, 1996 and 1997, respectively.

In addition, there were direct charges from CMI as follows:

	SIX MONTHS ENDED DECEMBER 31,	
	1997	1996
	(IN THOUSANDS)	
Marketing	$304	$389
General and administrative	--	142
Total	$304	$531

The Division believes that the direct charges from CMI were reasonable during the periods presented.

4. RESTRUCTURING

During fiscal 1997, a comprehensive review of the Division's operations was performed, including a review of inventory levels, product development and migration plans and facility and personnel needs. It was determined to focus the Division on potentially higher margin products. This resulted in the write-down of certain inventories and the restructuring of the Division's operations. During the six month period ended December 31, 1996 inventory and other charges of $10,300,000, arising from this review, were included in cost of products sold. During February 1997, additional charges of $800,000 relating to excess facilities and severance were recorded. There are no remaining cash outlays associated with the restructuring at December 31, 1997.

5. OTHER

In November 1997, the Division recorded a $1 million charge to cost of sales relating to a contract with a customer in Sudan. The President of the United States imposed economic sanctions on Sudan which banned U.S. companies from doing business in Sudan and as a result, the Division could not continue to perform under the existing contract. Based upon this, the contract was terminated and the Division has been released from further performance requirements.

On December 19, 1997, L-3 Communications Corporation, an unrelated party, reached an agreement to purchase from CMI substantially all of the assets of the Division, and to assume certain of the liabilities of the Division, for approximately $27 million in cash. The final purchase price is subject to adjustment based on the net assets of the Division at the closing date of the transaction.

EXHIBIT 99.3

SATELLITE TRANSMISSION SYSTEMS DIVISION OF CALIFORNIA MICROWAVE, INC.
FINANCIAL STATEMENTS
As of June 30, 1997 and 1996 and for the
years ended June 30, 1997, 1996 and 1995

REPORT OF INDEPENDENT AUDITORS

The Board of Directors
California Microwave, Inc.

We have audited the accompanying balance sheets of the Satellite Transmission Systems Division of California Microwave, Inc. (the "Company") as of June 30, 1997 and 1996, and the related statements of operations and cash flows for each of the three years in the period ended June 30, 1997. 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Satellite Transmission Systems Division of California Microwave, Inc., as of June 30, 1997 and 1996, and the results of its operations and its cash flows for each of the three years in the period ended June 30, 1997 in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Melville, New York
January 27, 1998

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
BALANCE SHEETS
(In Thousands)

	JUNE 30, 1997	JUNE 30, 1996
ASSETS		
Current assets:		
Accounts receivable, less $140 and $508 allowance for doubtful accounts in 1996 and 1997	$ 28,323	$ 46,750
Inventories	7,738	10,412
Prepaid expenses and other assets	77	121
Total current assets	36,138	57,283
Property, plant and equipment, at cost	21,503	21,378
Less accumulated depreciation and amortization	(13,687)	(12,984)
Net property and equipment	7,816	8,394
Intangible assets, net of accumulated amortization of $2,268 in 1996	--	2,032
Other assets	23	2,045
Total assets	$ 43,977	$ 69,754
LIABILITIES AND DIVISION EQUITY		
Current liabilities:		
Accounts payable	$ 7,764	$ 19,548
Accrued liabilities	3,571	3,584
Current portion of long-term debt	100	200
Total current liabilities	11,435	23,332
Long-term debt	1,530	1,630
Total liabilities	12,965	24,962
Commitments		
Division equity	31,012	44,792
Total liabilities and Division equity	$ 43,977	$ 69,754

See accompanying notes.

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
STATEMENTS OF OPERATIONS
(In Thousands)

	YEARS ENDED JUNE 30,		
	1997	1996	1995
Net sales	$ 68,037	$124,393	$94,271
Cost of products sold	65,724	102,399	86,335
Gross margin	2,313	21,994	7,936
Expenses:			
Research and development	1,360	2,540	2,288
Marketing and administration	14,154	13,295	12,655
Amortization and write-down of intangible assets	2,032	171	171
Restructuring	800	--	2,446
Total expenses	18,346	16,006	17,560
Operating (loss) income	(16,033)	5,988	(9,624)
Interest expense	(65)	(69)	(98)
Interest income	40	11	3
(Loss) income before income tax benefit (expense)	(16,058)	5,930	(9,719)
Allocated benefit (expense) from income taxes	4,676	(2,135)	3,207
Net (loss) income	$(11,382)	$ 3,795	$(6,512)

See accompanying notes.

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
STATEMENTS OF CASH FLOWS
(In Thousands)

	YEARS ENDED JUNE 30,		
	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	$(11,382)	$ 3,795	$(6,512)
Adjustments for noncash items:			
Amortization and write-down of intangible assets	2,032	171	171
Depreciation and amortization of property, plant and equipment	1,639	1,746	1,848
Loss on sale of assets	77	140	64
Provision for doubtful accounts	750	100	150
Changes in asset and liability accounts:			
Accounts receivable	17,677	(17,019)	14,937
Inventories	2,674	12,243	(8,211)
Prepaid expenses and other assets	449	1,449	5,627
Accounts payable	(11,783)	5,736	(3,747)
Accrued and other liabilities	(14)	(1,697)	1,895
Net cash provided by operations	2,119	6,664	6,222
CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditures	(1,138)	(1,099)	(1,881)
Proceeds from sale of building	1,617	--	--
Net cash (used in) provided by investing activities	479	(1,099)	(1,881)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments on long-term debt	(200)	(100)	(200)
Net cash provided to CMI	(2,398)	(5,465)	(4,141)
Net cash used in financing activities	(2,598)	(5,565)	(4,341)
Cash and cash equivalents	$ --	$ --	$ --
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION			
Cash paid during the year for interest	$ 38	$ 66	$ 70

See accompanying notes.

SATELLITE TRANSMISSION SYSTEMS DIVISION OF
CALIFORNIA MICROWAVE, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 1995, 1996 AND 1997

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying financial statements include the operations of the Satellite Transmission Systems Division ("STS" or the "Division") of California Microwave, Inc. ("CMI" or the "Company"). The Division is a global satellite communication systems integrator providing hardware, software and services for turnkey projects to large commercial customers, principally domestic and foreign telephone companies and major common carriers and to the U.S. and foreign governments.

These financial statements are presented as if the Division had existed as an entity separate from CMI during the periods presented and include the historical assets, liabilities, sales and expenses that are directly related to the Division's operations. However, these financial statements are not necessarily indicative of the financial position and results of operations which would have occurred had the Division been an independent entity.

USE OF ESTIMATES; RISKS AND UNCERTAINTIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Significant estimates are used in determining the collectibility of accounts receivable, warranty costs, inventory realization, profitability on long-term contracts, restructuring reserves, recoverability of property, plant and equipment, and contingencies. Actual results could differ from estimates.

CASH AND CASH EQUIVALENTS

The Division participates in CMI's centralized cash management function; accordingly, the Division does not maintain separate cash accounts, other than payroll and foreign subsidiary accounts, which are deemed insignificant, and its cash disbursements and collections are settled through Division equity.

INVENTORIES AND COST OF PRODUCTS SOLD

Inventories are recorded at the lower of cost or market. Project inventories are transferred to cost of products sold at the time revenue is recognized based on the estimated total manufacturing costs and total contract prices under each contract. Losses on contracts are recognized in full when the losses become determinable. During the year ended June 30, 1995, the Division recognized losses of approximately $2,800,000 on such contracts. The cost of other inventories is generally based on standard costs which approximate actual costs determined by the first-in, first-out method.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization charges are computed using the straight-line method based on the estimated useful lives of the related assets.

INTANGIBLE ASSETS OF BUSINESS ACQUIRED

During 1997, CMI wrote off $1,888,000 of purchased intangible assets, principally goodwill, relating to the original acquisition of STS by CMI, which was pushed down to the Division's books. The intangible

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

assets consisted of the excess of the purchase price paid for STS over the net tangible assets acquired and was amortized using the straight-line method over 30 years. During 1997, CMI determined that the excess purchase price was not recoverable due to a significant reduction in sales by the Division in 1997 as compared to prior periods and appropriately reduced the carrying value.

OTHER LONG-LIVED ASSETS

In accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of," the Division records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of such assets. Other than as described above related to purchased intangibles, no such losses have been incurred.

REVENUE RECOGNITION, RECEIVABLES AND CREDIT RISK

Revenue from product sales is recognized at the time of shipment. Sales on certain long-term, small quantity, high unit value contracts are recognized at the completion of significant project milestones, which are generally contract line items. Scheduled billings and retainages under certain contracts (principally export contracts) have deferred billing provisions resulting in unbilled accounts receivable (included in accounts receivable) of $7,426,000 and $4,425,000 at June 30, 1996 and 1997, respectively. The unbilled receivable at June 30, 1997, is expected to be collected within one year.

The Division manufactures and sells satellite communications products, systems and turnkey telecommunications networks to large commercial customers, principally domestic and foreign telephone companies and major common carriers, and to the U.S. government. The Division generally requires no collateral, but generally requires letters of credit, denominated in U.S. dollars, from its foreign customers.

During 1996 and 1997, the Division periodically transferred certain international accounts receivable to CMI. CMI insures these receivables under a credit insurance program and then sells the receivables, without recourse, at prevailing discount rates. The Division retains the responsibility to collect and service these amounts. Outstanding customer receivables transferred to CMI through Division equity amounted to approximately $421,000 and $2,100,000 during 1996 and 1997, respectively.

The Division charged to operations $150,000, $100,000 and $750,000 for its provision for doubtful accounts in 1995, 1996 and 1997, respectively.

WARRANTY

The Company generally warrants its products for a period of 12 to 24 months from completion of contract or shipment. Warranty expense was approximately $679,000, $753,000 and $688,000 for 1995, 1996 and 1997, respectively.

INCOME TAXES

Income taxes reflect an allocation of CMI's income tax expense (benefit) calculated based on CMI's effective tax rate. All deferred tax assets and liabilities relating to the Division are included in intercompany balances with CMI and are accounted for within Division equity (see Note 7). On a stand-alone basis, income tax benefit (expense) for the year ended June 30, 1997 would not be material due to the existence of net operating loss carryforwards at the Division level and the need for a full valuation allowance on any resulting net deferred tax asset. Such net operating losses have been fully utilized by CMI.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

FISCAL YEAR

The Division's fiscal year ends on the Saturday closest to June 30, and includes 52 weeks in fiscal 1995, 1996 and 1997. For 1995, 1996 and 1997, the fiscal years ended on July 1, 1995, June 29, 1996 and June 28, 1997, respectively. For clarity of presentation, the financial statements are reported as ending on a calendar month end.

2. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

		JUNE 30,	
	LIFE	1997	1996
	(IN YEARS)	(IN THOUSANDS)	
Land...........................		$ 950	$ 950
Buildings	30	3,559	3,559
Machinery and equipment	3-5	8,780	9,256
Office and computer equipment	3-10	6,440	5,653
Building improvements..........	--	1,721	1,813
Vehicles	5	53	147
		$21,503	$21,378

Building improvements are depreciated over the shorter of the life of the improvement or the remaining life of the building.

3. INVENTORIES

Inventories consisted of the following:

	JUNE 30,	
	1997	1996
	(IN THOUSANDS)	
Projects in process....................................	$6,484	$ 6,287
Less: progress billings................................	2,544	1,991
	3,940	4,296
Product inventories, principally materials and supplies..	3,798	6,116
Total..	$7,738	$10,412

4. ACCRUED LIABILITIES

Accrued liabilities consisted of the following:

	JUNE 30, 1997	JUNE 30, 1996
	(IN THOUSANDS)	
Salaries and bonuses	$ 497	$1,381
Vacation	610	873
Other payroll related	123	115
Warranties	899	758
Commissions	813	--
Other	629	457
	$3,571	$3,584

5. LONG-TERM DEBT

The Division has industrial development bonds that are payable in annual installments through November 9, 2007, may be prepaid at any time without penalty and bear interest at 65% of the bank's floating rate (5.5% at June 30, 1997), based upon prevailing market conditions, which is redetermined daily. The obligor of the industrial development bonds is a related entity, and the bonds are secured by mortgages on the equipment and properties involved.

At June 30, 1997, the annual maturities of long-term debt are as follows:

1998	$ 100,000
1999	200,000
2000	100,000
2001	200,000
2002	100,000
Thereafter	930,000
	1,630,000
Less current portion	100,000
	$1,530,000

6. COMMITMENTS

On November 15, 1996, the Division leased a facility under an 18-month noncancelable operating lease. Rent expense was approximately $209,000, $229,000 and $69,000 for 1995, 1996, and 1997, respectively.

Future minimum lease payments under the operating lease is $48,000 for 1998.

7. DIVISION EQUITY

A summary of the Division equity activity is as follows:

	JUNE 30,	
	1997	1996
	(IN THOUSANDS)	
Beginning balance........	$ 44,792	$46,462
Net income (loss)........	(11,382)	3,795
Net cash provided to CMI.....................	(2,398)	(5,465)
Ending balance...........	$ 31,012	$44,792

8. EMPLOYEE BENEFITS

The Division participates in the CMI defined contribution retirement plan which covers substantially all of the employees of the Division. The Division's contribution was $379,000, $700,000 and $180,000 for 1995, 1996 and 1997, respectively.

9. SIGNIFICANT CUSTOMERS AND SEGMENT INFORMATION

The Division operates in a single industry segment and is engaged in the manufacture and sale of electronics equipment for satellite communications.

International sales were as follows:

	JUNE 30,		
	1997	1996	1995
	(IN THOUSANDS)		
Asia Pacific.......	$22,333	$27,106	$17,164
Africa/Middle East..............	13,052	41,827	9,572
Latin America......	5,149	11,137	14,768
Europe.............	7,828	15,984	9,784
Other..............	1,391	2,973	4,312
	$49,753	$99,027	$55,600

The Division had revenues from one customer representing 17.3%, 31.5% and 11% of total revenues in 1995, 1996 and 1997, respectively.

10. CORPORATE ALLOCATIONS

CMI allocates corporate expenses on a value-added basis to each division, which CMI believes results in a reasonable allocation of such costs. The accompanying financial statements reflect charges for general corporate administrative expenses incurred by CMI which amounted to approximately $1,477,000, $1,555,000 and $1,663,000 in 1995, 1996 and 1997, respectively.

No interest is allocated by CMI to the Division.

The Division is charged for its proportional share of CMI's self-insured medical plan. Such charges amounted to $944,000, $1,437,000 and $1,856,000 in 1995, 1996, and 1997, respectively.

10. CORPORATE ALLOCATIONS (Continued)

In addition, there were direct charges from CMI as follows:

	JUNE 30, 1997	1996	1995
	(IN THOUSANDS)		
Marketing..................	$ 889	--	$--
General and administrative...........	285	$508	--
Total......................	$1,174	$508	$--

The Division believes that the direct charges from CMI were reasonable during the periods presented.

11. RELATED PARTY TRANSACTIONS

Included in net sales are product sales to other divisions of CMI. These sales totaled $3,584,000, $640,000 and $1,800,000 for 1995, 1996 and 1997, respectively. In addition, there is approximately $2,363,000, $2,937,000 and $776,000 of purchases from another division of CMI which is included in ending inventory and $2,139,000, $3,576,000 and $1,129,000 due to this division which is included in accounts payable at June 30, 1995, 1996 and 1997, respectively.

12. RESTRUCTURING

In June 1995, a decision was made to close the Division's Melbourne, Florida facility as well as to perform a review of personnel needs at the Division's operations. Pursuant to these decisions, approximately $2.4 million of restructuring charges were recorded, including approximately $600,000 to reflect the facility at its net realizable value. There are no remaining cash outlays associated with the restructuring at June 30, 1997.

In December 1996 and January 1997, a comprehensive review of the Division's operations was performed, including a review of inventory levels, product development and migration plans and facility and personnel needs. It was determined to focus the Division on potentially higher margin products. This resulted in the write-down of certain inventories and the restructuring of the Division's operations. Inventory and other charges of $10,300,000, arising from this review, were included in cost of products sold and excess facilities and severance charges of $800,000 were included in restructuring. There are no remaining cash outlays associated with the restructuring at June 30, 1997.

13. SUBSEQUENT EVENTS

In November 1997, the Division recorded a $1 million charge to cost of sales relating to a contract with a customer in Sudan. The President of the United States imposed economic sanctions on Sudan which banned U.S. companies from doing business in Sudan, and as a result the Division could not continue to perform under the existing contract. Based upon this, the contract was terminated and the Division has been released from further performance requirements.

On December 19, 1997, L-3 Communications Corporation, an unrelated party, reached an agreement to purchase from CMI substantially all of the assets of the Division, and to assume certain of the liabilities of the Division, for approximately $27 million in cash. The final purchase price is subject to adjustment based on the net assets of the Division at the closing date of the transaction.

EXHIBIT 99.4

ILEX SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 1997

INDEPENDENT AUDITORS' REPORT

The Board of Directors
ILEX Systems, Inc.:

We have audited the accompanying consolidated balance sheet of ILEX Systems, Inc. and subsidiary as of December 31, 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ILEX Systems, Inc. and subsidiary as of December 31, 1997, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

San Jose, California
February 9, 1998, except as to Note 9 which
is as of February 27, 1998

ILEX SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1997

ASSETS	
Current assets:	
Cash and cash equivalents	$ 4,919,548
Accounts receivable, net of allowance for doubtful accounts of $327,422	7,354,640
Unbilled accounts receivable	4,868,453
Inventories	923,466
Deferred income taxes	13,000
Other current assets	278,771
Total current assets	18,357,878
Property, plant, and equipment:	
Equipment	2,343,643
Furniture, fixtures, and leasehold improvements	634,425
	2,978,068
Accumulated depreciation and amortization	(2,031,763)
	946,305
Goodwill, net of accumulated amortization of $117,940	343,564
Deposits and other assets	138,730
	$19,786,477
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities:	
Current portion of long-term debt	$ 62,833
Accounts payable	2,226,340
Accrued payroll and related expenses	3,176,151
Deferred income	37,843
Distribution payable to shareholders	2,216,877
Income taxes payable	80,552
Other current liabilities	175,011
Total current liabilities	7,975,607
Other liabilities	18,678
Total liabilities	7,994,285
Shareholders' equity:	
Common stock, no par value; 5,000,000 shares authorized; 1,317,605 shares issued and outstanding	1,386,417
Retained earnings	10,405,775
Total shareholders' equity	11,792,192
Commitments	
	$19,786,477

See accompanying notes to consolidated financial statements.

ILEX SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1997

Revenues:	
Consulting fees	$57,309,190
Equipment sales	6,213,038
	63,522,228
Costs and expenses:	
Cost of revenue, consulting	41,852,031
Cost of sales, equipment	3,314,614
Selling, general, and administrative	9,507,879
Research and development	1,211,497
	55,886,021
Operating income	7,636,207
Other income (expense):	
Interest income	135,114
Interest expense	(8,579)
Loss on write-down of investment	(250,000)
Other expense	(108,000)
Income before income taxes	7,404,742
Income taxes	550,000
Net income	$ 6,854,742

See accompanying notes to consolidated financial statements.

ILEX SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
YEAR ENDED DECEMBER 31, 1997

	COMMON STOCK			
	SHARES	AMOUNT	RETAINED EARNINGS	TOTAL SHAREHOLDERS' EQUITY
Balances as of December 31, 1996	1,315,720	$1,352,249	$10,606,517	$11,958,766
Issuance of common stock in exchange for services	3,400	42,500	--	42,500
Stock repurchase	(1,515)	(8,332)	(6,060)	(14,392)
Distributions to shareholders	--	--	(7,049,424)	(7,049,424)
Net income	--	--	6,854,742	6,854,742
Balances as of December 31, 1997	1,317,605	$1,386,417	$10,405,775	$11,792,192

See accompanying notes to consolidated financial statements.

ILEX SYSTEMS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 1997

Cash flows from operating activities:	
Net income	$ 6,854,742
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	419,593
Allowance for doubtful accounts	(203,255)
Loss on write-down of investment	250,000
Deferred income taxes	485,000
Issuance of common stock for services	42,500
Changes in operating assets and liabilities:	
Receivables	(1,267,205)
Inventories	387,485
Other current assets	(112,176)
Deposits and other assets	140,884
Accounts payable and accrued liabilities	324,963
Deferred income	(159,012)
Income taxes payable	80,552
Other liabilities	(459,166)
Net cash provided by operating activities	6,784,905
Cash flows used in investing activities--purchases of property, plant, and equipment	(416,630)
Cash flows from financing activities:	
Payments on debt	(67,265)
Distributions paid to shareholders	(4,832,547)
Repurchase of common stock	(14,392)
Net cash used in financing activities	(4,914,204)
Increase in cash and cash equivalents	1,454,071
Cash and cash equivalents, beginning of year	3,465,477
Cash and cash equivalents, end of year	$ 4,919,548
Supplemental disclosures of cash flow information:	
Cash paid during year:	
Income taxes	$ 716,190
Interest	$ 8,579
Noncash investing and financing activities--distributions payable to shareholders	$ 2,216,877

See accompanying notes to consolidated financial statements.

ILEX SYSTEMS, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1997

(1) SUMMARY OF THE COMPANY AND SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS

ILEX Systems, Inc. (the "Company") provides services and products primarily in four areas: environmental consulting services to private and public sector customers; software consulting services to the federal government and its contractors; supervisory control and data acquisition products and services to the electrical utility industry; and secured communications products, principally to the federal government and its agencies. The majority of the Company's revenues are derived from its software consulting services.

PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

REVENUE RECOGNITION

The Company's consulting services are generally performed on time-and materials-based contracts for the federal government and its contractors. Accordingly, revenues are recognized as services are performed. Equipment sales revenues are recognized upon shipment. Unbilled accounts receivable comprise charges for services and materials provided to customers that have not been invoiced.

The Company does not require collateral for its receivables. Reserves are maintained for potential credit losses.

CASH EQUIVALENTS

Cash equivalents of $1,879,285 as of December 31, 1997, consist principally of money market investments. For purposes of the accompanying consolidated statement of cash flows, the Company considers all highly liquid debt instruments with remaining maturities of three months or less when acquired to be cash equivalents.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of financial instruments in the Company's consolidated financial statements approximates fair value due to the short-term maturities of these instruments.

INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or market.

PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets (generally five years). Leasehold improvements are amortized straight-line over the shorter of the lease term or the estimated useful life of the asset.

GOODWILL

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, is amortized on a straight-line basis over the expected periods to be benefited of 10 to 15 years. The Company assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation.

INCOME TAXES

The Company elected S corporation status on March 17, 1997, effective January 1, 1997. Federal and the majority of state income taxes on the income of S corporations are generally payable by the individual shareholders rather than the Company.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

USE OF ESTIMATES

The Company's management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

(2) INVENTORIES

Inventories consisted of the following as of December 31, 1997:

Raw materials and subassemblies..................	$833,945
Work in process................	89,521
	$923,466

(3) LINE OF CREDIT AND LONG-TERM DEBT

The Company has a $5,000,000 line of credit with a bank that is due on demand. Interest is payable at the bank's prime rate (8.5% as of December 31, 1997) and is secured by trade accounts receivable, inventories, and other assets. Borrowings outstanding under the line of credit were $-0-as of December 31, 1997. The line of credit contains certain restrictive financial covenants, including a minimum level of net worth and cash flow to debt ratio. As of December 31, 1997, the Company was in compliance with all such covenants.

The Company has an unsecured promissory note payable to a former shareholder that was issued in conjunction with the repurchase of shares of common stock in 1992. The note bears interest at 10% with payments of $6,000 per month, including interest, through December 1998. As of December 31, 1997, the principal balance of this note was $62,833.

(4) INCOME TAXES

The provision for income taxes for the year ended December 31, 1997, consisted of the following:

Federal:	
Current ..	--
Deferred .	$388,000
	388,000
State:	
Current ..	65,000
Deferred .	97,000
	162,000
	$550,000

The provision for income taxes for the year ended December 31, 1997, differs from the federal statutory rate, primarily due to the flow through nature of income tax liability to the shareholders and reduction of the federal and partial state deferred income tax assets and liabilities as of December 31, 1996, resulting from the S corporation election as follows:

Federal income tax statutory rate	34.0%
State income tax rate....................	2.2
Benefit of federal S corporation election................................	(28.8)
	7.4%

The gross deferred tax assets were $13,000 as of December 31, 1997, consisting of the state deferred income tax assets and liabilities for those states who do not recognize S corporation status. Management considers realization of the net deferred tax assets more likely than not due to continued profitability of the Company and significant carryback opportunities.

(5) EMPLOYEE BENEFIT PLANS

The Company has two Section 401(k) retirement savings plans (the Plans). Under the terms of the Plans, employees may make contributions based on a percentage of eligible earnings. Company contributions to the Plans are discretionary and totaled $359,718 in 1997.

(6) STOCK OPTION PLAN

The Company has 100,000 shares of common stock reserved for issuance under its 1992 Incentive Stock Option Plan (the "Plan"). Under the Plan, the Company may grant options to employees, officers, and directors. Options are granted at prices not less than the fair market value of the Company's common stock as determined by the Board of Directors on the grant date. Options vest ratably over 48 months and expire 49 months from the date of grant.

The Company applies Accounting Principles Board Opinion No. 25 (APB 25) in accounting for its stock options. The exercise price for stock options granted to employees in 1997 equaled the fair value of the Company's common stock at the date of grant. Accordingly, in accordance with APB 25, no compensation expense was recognized by the Company.

For purposes of pro forma disclosures required by Statement of Financial Accounting Standards No. 123 (SFAS 123), the compensation cost of the options, based on their estimated fair values, is amortized to expense over the vesting periods of the options. The Company's net income for the year ended December 31, 1997 would have reduced to the pro forma amounts indicated below:

Net income:	
As reported .	$6,854,742
Pro forma	$6,838,958

On January 1, 1997, the Company had no options outstanding. In July 1997, the Company granted 25,000 options at an exercise price of $17.50, all of which were outstanding but not exercisable as of December 31, 1997.

The weighted-average grant-date fair value of options granted during the year ended December 31, 1997 was $3.05 per option. The weighted-average remaining contract life of the Company's outstanding stock options was 3.5 years at December 31, 1997.

Pro forma information regarding net income as required by SFAS 123 has been determined as if the Company had accounted for its employee stock options under the fair value method. The fair value for the options was estimated at the date of grant using the minimum value method prescribed in SFAS 123, which does not consider the expected volatility of the Company stock price, with the following weighted-average assumptions for 1997: risk free interest rate of 6.06%; dividend yield of 0%; and weighted-average expected option life of 3.25 years.

(7) COMMITMENTS

The Company leases certain facilities under operating leases that expire at various dates through 2001. The Company in turn subleases some of these facilities. As of December 31, 1997, future minimum lease payments under noncancelable operating leases, exclusive of the sublease rentals, are as follows:

YEAR ENDING DECEMBER 31,	
1998.........	$1,474,448
1999.........	510,551
2000.........	292,096
2001.........	124,212
	$2,401,307

Rent expense, exclusive of sublease rentals, was approximately $1,081,636 in 1997. Sublease rental income was approximately $186,733 in 1997.

(8) SIGNIFICANT CUSTOMERS

For the year ended December 31, 1997, sales to a single customer represented 26% of revenues. The outstanding accounts receivable and unbilled receivable balances for this customer as of December 31, 1997, were $1,257,875 and $2,228,650, respectively.

(9) SUBSEQUENT EVENT

In January 1998, shareholders of the Company agreed to sell all of their common stock for approximately $50,000,000, subject to certain adjustments, plus additional consideration based on post-acquisition performance. The sale closed on February 27, 1998.

EXHIBIT 99.5

ALLIEDSIGNAL OCEAN SYSTEMS
A WHOLLY-OWNED OPERATION OF ALLIEDSIGNAL, INC.
COMBINED FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1997

REPORT OF INDEPENDENT AUDITORS

To the Management and Board of Directors
L-3 Communications Holdings, Inc.

We have audited the accompanying combined balance sheet of AlliedSignal Ocean Systems, a wholly owned operation of AlliedSignal, Inc. ("Ocean Systems"), as of December 31, 1997 and the related combined statements of operations, equity and cash flows for the year then ended. These financial statements are the responsibility of Ocean System's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Ocean Systems as of December 31, 1997, and the combined results of their operations and cash flows for the year ended December 31, 1997, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

Los Angeles, California
February 23, 1998

ALLIEDSIGNAL OCEAN SYSTEMS
(A WHOLLY-OWNED OPERATION OF ALLIEDSIGNAL, INC.)
COMBINED BALANCE SHEET
AS OF DECEMBER 31, 1997
(IN THOUSANDS)

ASSETS	
Current assets:	
Accounts receivable, net of allowances for doubtful accounts of $81	$13,313
Inventories	25,274
Contracts in progress	793
Prepaid expenses and other current assets	1,743
Total current assets	41,123
Property, plant and equipment, net	16,845
Capitalized software, net	2,248
Goodwill, net	1,820
Other assets	31
Total assets	$62,067
LIABILITIES AND EQUITY	
Current liabilities:	
Accounts payable	$ 2,626
Accrued liabilities	16,112
Advance payments	16,162
Total current liabilities	34,900
Accrued pension and postretirement benefits	10,959
Total liabilities	45,859
Commitment and contingencies	
Equity:	
Invested equity	9,312
ELAC common stock	3,424
ELAC retained earnings	4,570
Cumulative translation adjustment	(1,098)
Total equity	16,208
Total liabilities and equity	$62,067

See accompanying notes to the combined financial statements

ALLIEDSIGNAL OCEAN SYSTEMS
(A WHOLLY-OWNED OPERATION OF ALLIEDSIGNAL, INC.)
COMBINED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS)

Sales	$73,033
Cost of sales	56,049
Gross profit	16,984
Operating expenses:	
General and administrative	11,981
Selling	5,933
Bid and proposal	2,053
Independent research and development	2,765
Total operating expenses	22,732
Loss from operations	(5,748)
Interest expense, net	490
Other income	(185)
Loss before income taxes	(6,053)
Benefit for income taxes	(2,378)
Net loss	$(3,675)

See accompanying notes to the combined financial statements

ALLIEDSIGNAL OCEAN SYSTEMS
(A WHOLLY OWNED OPERATION OF ALLIEDSIGNAL, INC.)
COMBINED STATEMENT OF EQUITY
FOR THE YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS)

	INVESTED EQUITY IN OS (DEFICIT)	ELAC COMMON STOCK	ELAC RETAINED EARNINGS	CUMULATIVE TRANSLATION ADJUSTMENT	TOTAL EQUITY
Balance at December 31, 1996	$ 8,298	$3,424	$6,403	$ 87	$18,212
Net loss	(2,680)	--	(995)	--	(3,675)
Cumulative translation adjustment	--	--	--	(1,185)	(1,185)
Advances from (repayments to) AlliedSignal	3,694	--	(838)	--	2,856
Balance at December 31, 1997	$ 9,312	$3,424	$4,570	$(1,098)	$16,208

See accompanying notes to the combined financial statements

ALLIEDSIGNAL OCEAN SYSTEMS
(A WHOLLY OWNED OPERATION OF ALLIEDSIGNAL, INC.)
COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 1997
(IN THOUSANDS)

Cash flows from operating activities:	
Net loss	($ 3,675)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation of property, plant and equipment	2,976
Amortization of capitalized software	1,078
Amortization of intangible assets	70
Loss on the disposal of property, plant and equipment	8
Changes in operating assets and liabilities:	
Accounts receivable	13,561
Inventories	(359)
Contracts in progress	1,666
Prepaid and other current assets	(220)
Accounts payable	(1,976)
Accrued liabilities	(10,472)
Advance payments	(1,092)
Accrued pension and postretirement benefits	(20)
Net cash provided by operating activities	1,545
Cash flows from investing activities:	
Property, plant and equipment purchased	(3,090)
Software purchased	(265)
Net cash used in investing activities	(3,355)
Cash flows from financing activities:	
Advances from AlliedSignal, net	3,198
Net cash provided by financing activities	3,198
Effect of foreign currency exchange rate changes on cash	(1,388)
Net change in cash	--
Cash and cash equivalents at the beginning of the year	--
Cash and cash equivalents at the end of the year	$ --
Supplement disclosures of cash flow information:	
Cash paid during the year for:	
Interest--AlliedSignal	$ 552

See accompanying notes to the combined financial statements

ALLIEDSIGNAL OCEAN SYSTEMS
(A WHOLLY OWNED OPERATION OF ALLIEDSIGNAL, INC.)
NOTES TO COMBINED FINANCIAL STATEMENTS
DECEMBER 31, 1997
(DOLLARS IN THOUSANDS)

1. BACKGROUND AND DESCRIPTION OF BUSINESS

The Ocean Systems business ("Ocean Systems" or the "Company") is a wholly owned operation of AlliedSignal Inc. ("AlliedSignal") comprised of the Ocean Systems Division ("OS"), and AlliedSignal ELAC Nautik GmbH ("ELAC"). The OS Division headquarters and principal operations, including one manufacturing site, are located in Sylmar, California, a suburb of Los Angeles. OS also operates marketing offices located in Canada ("ASCI") and England ("BOSL"). OS was acquired through AlliedSignal's merger with the Bendix Corporation in 1982. ELAC is a wholly owned subsidiary of AlliedSignal Deutschland ("AS Deutschland") and is a separate legal entity located in Kiel, Germany. ELAC was acquired from Honeywell Inc. in 1994.

On December 22, 1997, L-3 Communications Corporation, a wholly owned subsidiary of L-3 Communications Holdings, Inc. ("L-3") entered into a definitive Purchase Agreement with AlliedSignal to acquire substantially all the net assets excluding land and buildings, and assumed certain of the liabilities of OS and purchased the outstanding capital stock of ELAC from AS Deutschland.

Ocean Systems develops, manufactures and sells sophisticated sonar detection and tracking devices for underwater use. The Company's customers include the U.S. Government, foreign governments, defense industry prime contractors and commercial customers. The Company operates primarily in one industry segment, electronic sonar components and systems.

All domestic government contracts and subcontracts of Ocean Systems are subject to audit and various cost controls, and Government contracts and related orders are subject to cancellation if funds for contract performance for any subsequent year become unavailable. Foreign government contracts generally include comparable provisions relating to termination for the convenience of the foreign government.

The decline in the U.S. defense budget since the late 1980s has resulted in program delays, cancellations and scope reduction for defense contracts in general. These events may or may not have an effect on the Company's programs; however, in the event that U.S. Government expenditures for products of the type manufactured by the Company are reduced, and not offset by greater foreign sales or other new programs or products, or acquisitions, there may be a reduction in the volume of contracts or subcontracts awarded to the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

BASIS OF PRESENTATION AND USE OF ESTIMATES

The accompanying combined financial statements reflect the assets, liabilities and operations of Ocean Systems including OS and ELAC which are combined herein as they are entities under common control and management. All significant intercompany accounts and transactions have been eliminated.

The preparation of financial statements in conformity with generally accepted accounting principals requires the Company's 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 combined financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to contract estimates of sales and costs, excess and obsolete inventory reserves, warranty reserves, pension estimates and recoverability of recorded amounts of fixed assets. Actual results could differ from these estimates.

REVENUE RECOGNITION

Under fixed-price contracts, sales and related costs are recorded upon delivery and customer acceptance. Sales and related costs under cost-reimbursable contracts are recorded on the percentage of completion method. Anticipated future losses on contracts are charged to income when identified. Revisions in profit estimates are reflected in the period in which the facts, which require the revision, become known.

ACCOUNTS RECEIVABLE

Management assesses the credit risk and records an allowance for uncollectable accounts as considered necessary based on several factors including, but not limited to, an analysis of specific customers, historical trends, current economic conditions and other information. The U.S. Navy comprises a significant portion of Ocean System's revenues. The Company's other customers include the navies of many foreign countries. The Company's credit risk is affected by conditions or occurrences within the U.S. Government and economic conditions of the countries in which the Company operates or has customers. Sales are made on unsecured, customer-specific credit terms, which may include extended terms.

INVENTORIES

Inventories are valued at the lower of cost or market using the average cost method. Inventories consist of raw materials and supplies, work in process and finished goods. An excess and obsolete inventory reserve has been established primarily for raw materials and parts that have not been allocated to firm contracts. The excess and obsolete inventory reserve is based on estimates of future usage of inventory on hand.

CONTRACTS IN PROCESS

Costs accumulated under cost-reimbursable contracts include direct costs, as well as manufacturing overhead. In accordance with industry practice, these amounts are included in current assets.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at historical cost net of accumulated depreciation. For financial purposes, property, plant and equipment is generally depreciated on the straight line method using estimated useful lives ranging from 3 to 20 years. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. Interest costs incurred during the construction of plant and equipment are capitalized using an imputed interest rate approximating 8%. Interest costs capitalized during 1997 amounted to $57.

CAPITALIZED SOFTWARE

Capitalized software primarily represents costs incurred related to the purchase and implementation of the Company's MRP II business system. Capitalized software is reported at historical cost less accumulated amortization. Amortization is based on the estimated useful service life not to exceed five years. Amortization of capitalized software was $1,078 for the year ended December 31, 1997. Accumulated amortization was $2,368 at December 31, 1997.

GOODWILL

Goodwill represents the excess of the cost of the purchased business over the net assets acquired and is being amortized on a straight-line basis over 40 years. This excess relates primarily to the allocated portion of goodwill arising out of the AlliedSignal merger with Bendix in 1982 and was allocated to OS based on the proportionate percentage of OS pretax earnings to the total Bendix Aerospace Group pretax earnings at the time of the AlliedSignal acquisition from Bendix. Amortization expense was $70 for the year ended December 31, 1997. Accumulated amortization was $980 at December 31, 1997.

The carrying amounts of intangible assets are reviewed if the facts and circumstances indicate potential impairment of their carrying value. If this review indicates that intangible assets are not recoverable, as determined based on the undiscounted cash flows of the entity acquired over the remaining amortization period, the Company's carrying values related to the intangible assets are reduced to the fair value of the asset.

RESEARCH AND DEVELOPMENT AND SIMILAR COSTS

Research and development costs sponsored by the Company include research and development and bid and proposal efforts related to government products and services. Customer-sponsored research and development costs incurred are included in contract costs.

FOREIGN OPERATIONS AND FOREIGN CURRENCY TRANSLATION

The Company's major foreign operation is ELAC located in Germany with the Deutsche mark as its functional currency. Assets and liabilities are translated at current exchange rates at the end of the period. Income and expenses are translated using the monthly average exchange rates. The effect of the unrealized rate fluctuations on translating foreign currency assets and liabilities into U.S. dollars are accumulated as a separate component of equity in the accompanying combined balance sheet.

There are no material foreign currency gains or losses for the year ended December 31, 1997 as the Company's U.S. sales to foreign customers are denominated in U.S. dollars. ASCI Canadian sales are denominated in Canadian dollars and the ELAC foreign sales are denominated in Deutsche Marks.

FINANCIAL INSTRUMENTS

At December 31, 1997, the carrying value of the Company's financial instruments, such as receivables, accounts payable and accrued liabilities, approximate fair value, based on the short-term maturities of these instruments.

INCOME TAXES

The benefit for income taxes for OS was computed by applying statutory tax rates to the reported loss before income taxes after considering items that do not enter into the determination of taxable income and tax credits reflected in the consolidated provision of AlliedSignal which are related to OS. Income taxes for OS are assumed to have been settled with AlliedSignal at December 31, 1997 and there are no separate tax attributes related to OS. For ELAC, separate tax attributes that relate specifically to ELAC have been considered in computing taxes.

3. TRANSACTIONS WITH ALLIEDSIGNAL

Ocean Systems relies on AlliedSignal for certain services, including treasury, cash management, employee benefits, taxes, risk management, internal audit, financial reporting, legal, contract administration and general corporate services. Although certain assets, liabilities and expenses related to these services have been allocated to the Company, the combined financial position, results of operations and cash flows presented in the accompanying combined financial statements would not be the same as would have occurred had the Company been an independent entity. The following describes the related party transactions.

(DOLLARS IN THOUSANDS)

ALLOCATION OF CORPORATE EXPENSES

The amount of allocated corporate expenses reflected in these combined financial statements has been estimated based primarily on an allocation methodology prescribed by government regulations pertaining to government contractors. Corporate expenses allocated to Ocean Systems were $2,258 for the year ended December 31, 1997, and are included in general and administrative expense in the accompanying combined statement of operations.

PENSIONS

Certain of the Company's employees participate in various AlliedSignal sponsored pension plans covering certain employees. Eligibility for participation in these plans varies, and benefits are generally based on employees' compensation and years of service.

AlliedSignal funding policy is generally to contribute in accordance with cost accounting standards that affect government contractors subject to the Internal Revenue code and regulations. Although the aforementioned pension arrangements are part of certain AlliedSignal defined benefit plans, separate actuarial estimates were made for the portion allocable to the Company. Pension expense included in the accompanying combined statement of operations was $1,452 for the year ended December 31, 1997. The pension plan liability at December 31, 1997 was fully funded. The Company also has a supplemental pension plan for highly compensated employees as defined by IRS rules. The liability reflected in the accompanying combined balance sheet was $650 at December 31, 1997. Pension expense included in the combined statement of operations for the supplemental pension plan was $24 for the year ended December 31, 1997.

The Company's German employees of ELAC are covered by a separate pension plan. Pension costs included the following components for the year ended December 31, 1997:

Service costs earned during the year	$163
Interest cost on projected benefit obligation	119
Actual return on plan assets	(92)
Amortization of unrecognized net obligation ..	24
Net periodic pension cost	$214

(DOLLARS IN THOUSANDS)

The following table sets forth the ELAC pension plan funded status and amounts recognized in the Company's combined balance sheet at December 31, 1997:

Actuarial present value of benefit obligation	
Vested	$1,067
Nonvested	296
Accumulated benefit obligation	1,363
Projected benefit obligation	1,919
Plan assets at fair value	1,422
Projected benefit obligation in excess of plan assets	497
Unrecognized net loss	37
Unrecognized prior service costs	
Unrecognized net obligation	(361)
Accrued pension costs	$ 173

Major assumptions were:	
Discount Rate	6.8%
Expected long-term rate of return on assets	6.8%
Rate of increase in compensation levels	4.0%

POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

In addition to participating in AlliedSignal pension plans, employees of OS are provided varying levels of 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 pension plan eligibility requirements. These benefits are funded primarily on a pay-as-you-go basis with the retiree generally paying of the cost through contributions, deductibles and coinsurance provisions.

Although the aforementioned postretirement benefits are part of certain AlliedSignal postretirement arrangements, separate actuarial estimates were made for the portion allocable to the Company. The weighted average discount rate utilized in determining the accumulated postretirement benefit obligation was 7.25% for 1997. Net postretirement benefit costs included in the combined statements of operations was $1,072 for the year ended December 31, 1997.

The net postretirement benefit costs for 1997 included the following components:

Service cost-benefits attributed to service during the period	$ 545
Interest cost on accumulated postretirement benefit obligation	704
Amortization of gain	(177)
Net postretirement benefit cost	$1,072

(DOLLARS IN THOUSANDS)

The funded status of the plan and related liability amounts recognized in the accompanying combined balance sheet at December 31, 1997 were as follows:

Accumulated postretirement benefit obligation:	
Fully eligible active plan participants	$2,698
Other active plan participants	7,049
	9,747
Unrecognized prior service costs	--
Unrecognized net gain (loss)	--
Accrued postretirement benefit cost	$9,747

EMPLOYEE SAVINGS PLANS

Ocean Systems North American operation also has a supplemental savings plan in which the Company matches the contributions of participating employees up to a designated level. Under this plan, the matching contributions, in cash, were $54 for the year ended December 31, 1997 and the liability recorded at December 31, 1997 was $562.

INTEREST EXPENSE

Interest expense has been allocated to the Company by applying AlliedSignal's weighted average consolidated interest rate to the portion of the beginning of the period equity account deemed to be financed by consolidated debt, which has been determined based on AlliedSignal's debt to equity ratio on such date. Management of the Company believes that this allocation methodology is reasonable.

The allocated interest expense was calculated using the following equity balance and interest rate, for the year ended December 31, 1997:

Equity	$5,751
Interest Rate	9.6%

Allocated interest expense for the year ended December 31, 1997 amounted to $552 and is included in interest expense, net in the accompanying combined statement of operations.

INCOME TAXES

The Company will be included in the consolidated Federal income tax return, foreign tax returns and certain combined and separate state and local income tax returns of AlliedSignal for 1997. Income taxes for OS are considered to have been settled with AlliedSignal at December 31, 1997 and are recorded through the invested equity account with AlliedSignal as there are no separate stand alone tax attributes related to OS.

ELAC participates in the AlliedSignal Deutschland GmbH profit pooling agreement for corporate income tax and municipal trade tax. Since entering into this agreement ELAC has not paid German taxes, as any profits or losses of ELAC are transferred to AlliedSignal Deutschland. For purposes of these combined financial statements, the tax attributes that relate to ELAC prior to entering into the pooling agreement have been considered in computing the separate ELAC tax computations as these attributes will remain with ELAC after the termination of the pooling agreement after the acquisition by L-3.

(DOLLARS IN THOUSANDS)

STATEMENT OF CASH FLOWS

The company participates in the AlliedSignal cash management system, under which all cash is received and payments are made by AlliedSignal. All transactions between the Company and AlliedSignal have been accounted for as settled in cash at the time such transactions were recorded by the Company.

4. INVENTORIES AND CONTRACTS IN PROCESS

Net inventories are comprised of the following components at December 31, 1997:

Raw materials and supplies	$14,894
Work in process	6,675
Finished goods	12,080
Excess and obsolete inventory reserve	(7,772)
Net inventories	25,877
Less, unliquidated progress payments	(603)
	$25,274

For the year ended December 31, 1997, there were no general and administrative, independent research and development, or bid and proposal costs charged to inventory.

Contracts in process, amounting to $793 as of December 31, 1997, include accumulated inventoried costs and profits on cost or cost-reimbursement contracts, principally with the U.S. Government. The U.S. Government has title to, or a security interest in, inventories to which progress payments are applied. The Company believes that substantially all such amounts will be billed and collected within one year.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 1997 are comprised of the following components:

Buildings, building improvements and land improvements	$ 9,108
Machinery, equipment, furniture and fixtures	48,060
Leasehold improvements	300
	57,468
Less, accumulated depreciation and amortization	(43,324)
	14,144
Land	388
Construction in progress	2,313
	$ 16,845

Depreciation and amortization expense was $2,976 for the year ended December 31, 1997.

(DOLLARS IN THOUSANDS)

6. INCOME TAXES

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

Statutory federal income tax rate	(35.0)%
State taxes net of federal benefit ...	(6.0)%
Foreign losses with no tax benefit ...	6.7 %
Foreign sales corporation tax benefit..............................	(4.5)%
Other, net............................	(0.5)%
	(39.3)%

At December 31, 1997, the German trade tax and corporate income tax net operating loss ("NOL") carryovers amounted to $953 and $1,180, respectively, and may be carried forward indefinitely.

At December 31, 1997, deferred tax assets related to ELAC's German trade tax and corporate income tax NOL carryovers amounted to $468. A full valuation is recorded against the deferred tax asset.

The valuation allowance for deferred taxes was based on ELAC's historical losses from operations and its current year loss. In addition, certain aspects of the acquisition could limit the utilization of a portion or all of these NOL carryovers. Accordingly, management believes currently there is not enough historical information to support that it is more likely than not that ELAC will realize the future tax benefit of these NOL carryovers.

7. EQUITY

Invested equity represents the equity contributed to OS by AlliedSignal and related accumulated results of operations of OS. ELAC common stock represents the one share of common stock held by AS Deutschland. ELAC's retained earnings includes the impact of ELAC's accumulated operating losses, and repayments to AlliedSignal offset by the effects of the amortization of negative goodwill associated with the ELAC acquisition from Honeywell.

8. SALES TO PRINCIPAL CUSTOMERS

The Company operates primarily in one industry segment, electronic sonar components and systems. Sales to principal customers are as follows for the year ended December 31, 1997:

U.S. Government agencies and prime contractors	$36,133
German government..............................	5,895
Other foreign governments.......................	24,883
Commercial customers...........................	6,122
	$73,033

(DOLLARS IN THOUSANDS)

Summarized data of the Company's operations by geographic area for the year ended December 31, 1997 are as follows:

	NORTH AMERICA	GERMANY	REST OF EUROPE	ASIA	OTHER	ELIM	TOTAL
Sales to unaffiliated customer	$39,002	$ 8,146	$6,220	$18,611	$1,054	--	$73,033
Inter-area sales	19,536	4,334	--	--	--	$(23,870)	--
Loss from operations .	(4,658)	(1,090)	--	--	--	--	(5,748)
Identifiable assets at December 31, 1997 ...	51,613	10,454	--	--	--	--	62,067

9. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities and equipment under agreements expiring at various dates through 2011. At December 31, 1997, future minimum payments for noncancellable operating leases with initial or remaining terms in excess of one year are $933 for 1998, $340 for 1999, $161 for 2000, $35 for 2001 and $7 for 2002.

Leases covering major items of real estate and equipment contain renewal and or purchase options which may be exercised by the company. Rent expense, net of sublease income from other AlliedSignal entities, was $1,342 for the year ended December 31, 1997.

Management is continually assessing the Company's obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost to be incurred by the Company in order to comply with these laws, based upon available internal and external assessments, with respect to those environmental loss contingencies of which management of the Company is aware, the Company believes that even without considering potential insurance recoveries, if any, there are no environmental loss contingencies that individually or in the aggregate, would be material to the Company's combined financial position, cash flows and results of operations. The Company accrues for these contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

The Company is engaged in providing products and services under contracts with the U.S. Government and foreign government agencies. All such contracts are subject to extensive legal and regulatory requirements, and, from time to time, agencies of the U.S. Government investigate whether such contracts were and are being conducted in accordance with these requirements. Under government procurement regulations, an indictment of the Company by a federal grand jury could result in the Company being suspended for a period of time from eligibility for awards of new government contracts. A conviction could result in debarment from contracting with federal government for a specified term.

The Company is also periodically subject to periodic review or audit by agencies of the U.S. Government. At December 31, 1997, there are several pending issues with these agencies that are incidental to the Company's business. One of these reviews was critical of the Company's procedures for maintaining control of Government owned property in the Company's custody. The Company is responsible and liable for $93 million of Government-owned property in its possession. With respect to this and other U.S. Government matters, the Company's management believes the ultimate resolution of any such matters will not have a material adverse effect on the combined financial position, cash flows or results of operations of the Company.

The Company is periodically subject to litigation, claims or assessments and various contingent liabilities (including environmental matters) incidental to their business. With respect to those investigative actions, items of litigation, claims or assessments of which they are aware, management of the Company is of the opinion that the probability is remote that, after taking into account certain provisions that have been made with respect to these matters, the ultimate resolution of any such investigative actions, items of litigation, claims or assessments will have a material adverse effect on the combined financial position, cash flows or results of operations of the Company.