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PRESENTATION

Rob Spingarn - *Credit Suisse - Analyst*

So, L-3 Communications is a provider of communication and electronic systems for military and commercial aerospace applications. We're pleased to introduce a man who's been there from the beginning, and I actually had the pleasure of being around back then, so I watched it happen, L-3's Chairman and Chief Executive Officer, Michael Strianese. Mike's been with L-3 since the founding back in 1997, playing key roles as the Company transformed into a prime contractor or a large contractor, I mean, it's a better way to say it, with a market cap over \$12 billion. Mike has been in the CEO seat since 2006 and Chairman since 2008. We also have another guy up here who's been around from the beginning, Ralph D'Ambrosio, the CFO, and I want to acknowledge General Cody who is the former Vice Chief of Staff of the US Army, who's here in the front row representing the Company, along with Heidi Wood. Thank you all.

So, with that, welcome.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Okay. Good morning, everyone. Thanks for the nice introduction, Rob. So, I have a charter to, just as a refresher, on L-3 and what we've been doing and then just a little more color on our markets. So here's the ever-popular forward-looking statement disclosure. And just at a quick glance, as Rob said, we're a leading aerospace and defense contractor. We don't focus on platforms normally, but we do focus on major supplier positions, subsystems, if you will, like payloads on a reconnaissance satellite or aircraft will be typically something we would do.

As of late, we've sharpened the Company's focus away from services and more towards the traditional electronics portfolio that we're so used to running, going back to our days as Loral and even with Lockheed Martin. We've been increasing our investments in R&D, or IRAD, independent research and development, or areas that customers really need, and as well as M&A. You've seen us pick up the M&A game a little bit over the last six months or so.

So, in terms of some of the Company attributes, we have a very broad diverse portfolio and positions in US defense market which supports our organic growth. We have industry-leading, I'd like to say, high earnings to cash flow conversion. We have a very efficient capital structure, we maintain an investment grade credit. As you may have seen yesterday, we completed an offering of 10 year notes, again investment grade. Very good market reception was oversubscribed many times over, but that investment grade, it's a question we normally get. Why does the Company need it? Yes, we need it. I think it's very important and it makes our access to the capital market very, very easy. It also gives us the freedom to deploy our cash in ways that we think are important to our shareholders like increasing dividends, share repurchases, acquisitions. In an investment grade credit, that is virtually unrestricted, whereas on other forms of credit agreements, they're typically things called restricted payment baskets that will limit them. So that's a topic that sometimes people overlook, but there's a reason beyond just being investment grade to have that. It really helps us execute on our strategy.

We have an experienced management team. We've had a few important additions over the last year. Chris joined us -- Kubasik from Lockheed Martin. Heidi Wood joined us. We have a new General Counsel. So we have not only an experienced management team but, I would say, one of the most experienced in the industry. People that have really been around for a long time and have had great careers.



So our objective on top of growing the Company is to satisfy our customers that we wanted to in the areas where we are possessing the expertise that we have to continue to grow top line and expand our margins as we continue with a disciplined capital allocation. I guess it's also worth saying -- Rob said, we've been around for a while. Well, 2017, we'll be celebrating our 20th anniversary and I'd characterize our history as we went through a period of, what I would call, rapid aggressive acquisitions during the first eight years or so. Wouldn't be unusual to buy 8 to 10 companies in the year. Well, I like to say, I show up when the party ended and the lights went out because we went through eight years of a tough budgeted environment with sequestration. So, the last eight years, we've managed through downward budgets and tough acquisition policy like better buying power. But like everyone, we survived too. And we're entering a phase now that, I would call, more disciplined growth. We are focusing on M&A and organic growth, but in a very disciplined fashion, and it wouldn't be anywhere near the pace it was in the beginning, but we're adding companies that expand our portfolio in areas that we believe [were for] outstanding growth opportunities for us.

So, I'll talk about our two major end markets. First would be US government, the other would be commercial and international. Of course, it's driven by geopolitical conditions, which are as volatile as they've ever been. We're about to head off to the Reagan National Defense Forum, which is this weekend out in Simi Valley at the Reagan Library. And a bunch of our management team will be out there and a couple of board members, as well as just about everybody in the Pentagon that's involved with acquisition and those from Congress and the media. So it's very well attended. Actually, you'll read about it. Unfortunately, we do not have new secretary names yet or maybe fortunately because (inaudible) a lot and I wish he would say but I gather, there will be a new secretary. And we don't have a lot of color behind what our new budget is going to look like. So, I know everybody would like to know what is L-3 going to look like under a Trump Administration. And other than the broad statements about a growing budget, a bigger army, more ships, cyber, counterterrorism, I can repeat all those to you. But there's not a budget and there's not a lot of detail yet, which is hard to model as you can appreciate.

The upcycle began this year. Although it's low-single digits, it's very modest. We anticipate 2% to 3% growth looking out the next year. I would say, we still have more sequester to live through unless that gets repealed, and budget trimming as well as the OCO, the Overseas Contingency Operation, account, which is where we're funding some of the overseas whether it's a rocket, (inaudible) et cetera, that's where that funding comes from. Classified budgets have been expanding in terms of the number of programs included in that space and also growing in terms of the dollar amount of those programs. So, there's a lot going on in that space. I guess, if it's hard to see, it's hard to cut, which is a good reason why we are there.

Higher defense spending is expected, as I just said, under the new administration. Our select capabilities that we think will play well are: secure communications ISR systems, that's intelligence surveillance and reconnaissance; sensors; night vision or image intensification equipment; naval power systems, bigger loading means more ships, means more power systems; and readiness support, we are a leader in readiness support, it's an area that's going to get attention; as well as our work for the special operation forces.

On the international and commercial, as you would expect, the markets were affected again by global economic events as well as security conditions. The big market -- it's a diverse market. We engage in sales to foreign governments through the foreign military sales program and typically the areas of interest, ISR systems, simulators, communication systems night vision, sensors. Near-term, there has been softness in the international market space. The acquisition cycle is typically longer than in the US. I think, some of the main customers in the Middle East maybe a bit affected by the overpriced situation. But again, there's been a lot in the press as of recent about increasing our foreign military sales and we expect that to have some modest recovery looking out over the future as well.

In the commercial space, there are favorable long-term fundamentals in those areas where we are focused. One is avionics, security screening in airports, simulation and training, pilot training is about 500,000 pilots estimated to be required over the next decade, it's well-published data and we've made several investments in pilot training companies to offer airlines not just the simulated device but actual training by the hour for their pilots, it's a turnkey system, they can just send their pilots in. We have instructor, we have the curriculum, we have the machine, and we could issue licenses. So it's a good model and very favorable given the demographics going on in the pilot space right now. The build-out of the airports globally, whether it's Middle East or Asia, is requiring more security screening equipment as well as the fact that if you've been through an airport, there's some of the lines were just ridiculous and we've been working closely with our customer there to develop solutions that can speed up the whole process regarding to the airports. So, we have a recent acquisition, I'll talk to that will help in that regard. And beyond the simulation and training, we have RF, microwave and power devices are also areas that we've been selling commercially over the last year.



In terms of cash deployment, as I mentioned, we've been focusing on increasing our independent research and development. It runs about 2.5% of sales. There's been numerous requests from our customer, the Pentagon, to increase our R&D. There's this third offset strategy that you hear about and the need for us to catch up were a bunch of years of under-investment. So, there's a lot to get done. And I mean, I'm sure you'll hear more about third offset strategy after this weekend's media comes out and comments are made by some of those competitions from the Pentagon.

CapEx, which was pretty steady for us, I wouldn't call it's a capital intensive business, it's about \$200 million. Debt repayments, close to \$300 million. Dividends \$220 million, our 12th annual increase this year. We'd like to continue that policy of annual increases. Share purchases were about \$373 million, and so far, \$387 million in acquisitions. The year is not over yet. There could be one more smaller one that gets into the year maybe, but that's about how 2016 will shake out in terms of what we did with the cash.

So the acquisition I mentioned is a company called MacDonald Humfrey Automation Limited. It's based in the UK and Luton, which is outside of London. It's about \$280 million. Overview, their process and automation control based in terms of their systems and they also are systems integrators. 350 employees, as I said, based in Luton, and they address aviation security as well as some other markets, but they're primarily focused in the aviation security and some automation control for manufacturing, and it fits well with the balance in our airport security portfolio. And we're expecting pull-through opportunities for our other security-screening equipment whether it's the provision that everybody loves to go through with the airports or are bomb detection equipment, which you really don't see it. It addresses you checked baggage after you put them on the belt behind the travel, the flight agent there when you check in.

In terms of financials. The purchase price multiple is about 10 times 2017 EBITDA. There is a contingent price or an earn-out, which could be up to another \$37.5 million based on 2017-2019 performance in sales, it's payable in 2020. Projected sales for 2017 is about \$135 million. It's EPS neutral for 2017, given the reduction in our plan for the shares we won't be buying back since we've invested in this company. So that will stay kind of even for 2017. But of course top line should grow due to additional sales.

So in terms of guidance, I'm not going to talk to this in detail. I think Ralph can cover this if you have any questions, because this is what 2016 is looking like, about 2% down on the top line. The good news is the margins are up about 110 basis points. We've been very focused on margin expansion and our goal of getting to double-digit next year. You'll see, we are at [\$0.10] earnings per share, up 14%, \$7.85 to \$7.95 is our range and free cash flow is about [\$825 million] for the year.

In terms of 2017, again, right now modest top line growth is what we're seeing and a modest organic growth number. I guess you could add them together if you wanted to. Operating margin, as I said, 10%. It would have been 10.3% but for the headwind we have on pension, given disrupted discount rate. That could still change by year-end, in which case, we would be back to about 10.3%. EPS, right now, forecast is \$8.25, and free cash flow of about \$850 million. Again Ralph would be happy to answer any questions you have on the guidance.

So in summary, we're in a period now where we hope that the negative years are behind us and we'll be entering a period of budget growth. We will specialize, as we always have, in affordable solutions and technologies that line-up very well with customer priorities. I mean, we listen and pay attentions where they are focused and that's where we try to fill the white space with solutions that address their requirements. We're focused on satisfying our customers; and by doing that, we'll grow our sales margins and earnings and cash flow will continue to be strong, and we'll be able to deploy that cash to our disciplined growth story.

So, with that, Rob, I guess we have some questions. Time for questions.

Rob Spingarn - Credit Suisse - Analyst

We definitely have. We've 20 minutes, 39 seconds. So, there is the clock. I'm going to throw out just on the back of what you just said, feel free to stay at the podium, grab a seat either, whatever makes you more comfortable. You noted that the Company's gone through a couple of nearly decade-long phases. So we had Phase 1, which was aggressive growth, we've bought something like a 100 companies, and then we had Phase 2, which was Obama, and constraint spending environments. Now you're doing acquisitions again and you're doing them at a time when the stock is elevated along with the entire group. Are we seeing a shift away from buybacks to M&A and/or deleveraging at this point, is that kind of thesis going forward?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

We're being opportunistic with the types of companies we're seeing. Buying back stock is always an option. We've always said that that would be our strategy, should there not be acquisition targets that made sense for us. And we continue to buy back our stock, it's in the plan for next year. We have a significant number of shares bought back -- repurchased this year in 2016. So, it's a much more difficult environment when you're executing M&A, we have a budget down draft. It's everybody's plan, has the bar going up and you know they can't be right and there's a lot more room for mistakes. And given the depressed prices, there were a lot of good properties where sellers wouldn't bring them to market, because prices were depressed. So, we're seeing that whole logjam loosen up and some good properties are becoming available.

Our multiple that's come up is give us a little more headroom, I would say, and thus being able to pay a little bit more, because we don't want to pay much more than a multiple, we don't have any more than our own multiple, to be honest with you. And I would say that we are focused on businesses that do make sense and we'll grow outright, but again the pace will not be does in the year, right.

Rob Spingarn - *Credit Suisse - Analyst*

Okay. That's a fair answer. Ralph, excuse me for asking this one. If can you gave a multiple on the acquisition on 2017 EBITDA, what's that multiple on 2016?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Right. It's a little above 11 times.

Rob Spingarn - *Credit Suisse - Analyst*

Okay. So you guys aren't -- you do anything heroic here with EBITDA?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

No, we're continuing to be disciplined on purchase price, which is a key characteristic of the way we make acquisitions.

Rob Spingarn - *Credit Suisse - Analyst*

All right. And are you finding that the asking price is just given the environment we're in. You talked about, you're willing to go a little higher, but your disciplined. Are sellers getting -- looking at these multiples out here in the market, are sellers getting very big eyes when it comes to asking prices?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Well, I would say in fairness, we've walked on four deals, because we didn't like the price and we couldn't really get there with the seller and we wish we're not willing to stretch. Places that we thought did not make sense, we always have the option of our own stock. The risk free investment in a company we're not involved. Just you talked about it, so we will stay disciplined -- again prices are up from where they had been. So in terms of wide-eyed sellers, maybe we are seeing a little bit of that especially on the individually owned entrepreneurial businesses where an owner might be looking for his retirement liquidity if that's possible. We're not seeing divestitures or things that would be of interest for many of the bigger companies. There's no portfolio shaping going on in defense electronics right now that I see that makes any sense to us. And everybody is just about divested in the services that they wanted to, so services.

Rob Spingarn - *Credit Suisse - Analyst*

Do you think we're done with, not you guys, because you guys have done your thing. Just really from a read through to the rest of the industry, do you think -- I would think there is some services pieces that can come loose in some of the other big guys that hasn't happened yet.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Well, I'd like to think that drill is executed by every company that has gone through that soul searching in the portfolios. Cleanup strategy, it could be a couple more. I think that the biggest story will be when all these service companies decide to consolidate because that consolidation story is easy dealing with homogeneous businesses. We've got a lot of factories that we got to put them together, and you certainly can get a lot of operating leverage or synergy, if you will, through some M&A in that space. I think, even the Pentagon is expecting it.

Rob Spingarn - *Credit Suisse - Analyst*

So, actually on that sort of a slight segue and general coating we made, this may be the point at which we talk about the land a little bit. I wanted to ask you for a little more on the environment we're in. You talked a little bit about the budget, you talked a little bit about the fact that Trump's coming, but we don't know a lot about what that brings. So first part of the question is, can you add any more to that how you're thinking about it and then I would pass the turn over here to General Cody and if we have a microphone somewhere, I think there's a mic then we can do that. But if you could put it through your lens, especially the comment that Mike made earlier on readiness and what needs to be done there. Ma'am, if we can bring the mic over here.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Sure. Well, I got to tell you readiness is a topic that I've been in discussions with (inaudible) for the last six months, because as you know, we have a business called Vertex that one could argue in services, because it's not a product. We are servicing fleets of aircraft and other equipment that has been hard because of the non-focus on readiness. And there is a pent-up demand. So, as I'd like to say, and not to get people too excited, but we may be holding a winning lottery ticket with Vertex depending on how the budget unfolds, and you'll hear some of the testimony from leaders in the Pentagon about readiness being way behind where we should be but please let me turn it over to you.

Rob Spingarn - *Credit Suisse - Analyst*

Okay. Thanks, Mike.

Richard Cody - *L-3 Communications Holdings, Inc. - SVP of Washington Operations*

Okay. Couple of things, one is all four service chiefs as well as Secretary Carter, a little bit, but more importantly the guys that are staying, Joe Dunford the Chairman of Joint Chiefs, all of them testified on where they were in terms of the readiness to be able to do on Iran, North Korea, China, Russia, and then the continuing long-term global war on terrorism read Al-Qaeda, ISIS, Boko Haram and (inaudible). And they said that they were at medium risk and the army said they were at high risk. In my 37 years, I've never heard anybody say medium or high risk. That followed with the Heritage Foundation, which is probably a good read, Rob, for some of you guys like Ross. The Heritage Foundation came out with their 2017 military index and it rated the Army as weak in those areas to respond the Navy, Air Force and Marine as marginal. And all of that had to do with not only the size, the capacity, but the readiness. They're averaging less than 60% readiness on their aircraft, their mods are behind, the helicopters are averaging less than that, the ships are in tough shape, and the Army on the ground side Tanks, Bradley's, and other mods to catch up, as well as their communication package, WIN-T, for instance. That was all slowed down because of sequestration.

So what we're seeing in, right now, the last budget 2016-2017 is coming out going up to FY21, despite a 2% growth in CAGR, in the base DoD budget, about [5.24%] going up to [5.80%], should I guess. And OCO was supposed to -- Trump added [\$30 billion] a year. Remember when they did that, it's up to \$63 billion in this budget. I think that's going to stay there. Trump came out in September sometime and his people started talking about a 13% to 14% increase. I don't think you'll get there. He can't do much with the 2017 budget, but the 2018 budget comes in March and we anticipate at least they tick up 2% to 3% there until he gets his taxes planned in and some other paybacks on the domestic side. But over a five-year, we expect to see probably a much, not larger double-digit, but 3% or 4% increase.

Now, here's the issue. That's assuming that Russia, China, North Korea and the rest of the world behaves themselves. I briefed some of you a while back about the cycles. From the Gulf War to 9/11 was a long time, peace no peer competitor. Now we've been 16 years of war and the next cycle is going to be a lot quicker than next 10 years. And we're seeing that, and that's what the Heritage Foundation and the rest of the (inaudible). And it's what's keeping the Pentagon up at night. So their readiness, they're going to buy it back and buy it back quick, if they have to go someplace.

And Vertex and some of our other companies are well postured to get moving on that. And you'll see that initially in in OCO. So it's really a capability readiness issue right now. It will take them time to build back up capacity in terms of number of ships, air wings. And I think in the NDAA, I just saw they want to keep the army 476 now versus 420. And so that would be paid for in OCO dollars initially. That's a lot more equipment that has to go on to troops versus 420. So that's kind of a long answer, but that's where we see it going right now.

Rob Spingarn - *Credit Suisse - Analyst*

Thank you for that. Is any of that in this -- Ralph, this maybe for you, but is any of this troop -- these changing troop numbers soon enough that there is upside to 2017 number?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

It depends. General Cody mentioned there's a possibility that there could be additional supplementals in FY17, and L-3 as a general matter is highly levered to the size of the force structure, particularly in the army. You see that in the communications equipment that we sell as well as the night vision equipment, and then also in the training and simulation work that we do. So, we certainly could have some upside later on in 2017, depending on what happens with the supplementals and the final appropriation for FY17.

Richard Cody - *L-3 Communications Holdings, Inc. - SVP of Washington Operations*

One caveat. Mike mentioned FMS, you asked it, but we're also seeing because the US military has come down so much and our enemies aren't being as deterred as much, some of our allies have not been assured as much, and so you're seeing deals like we've got in Australia, LAND 53, they're increasing their buys now, where the C-27J or a couple of our ISR asset aircraft that they're buying, why, because they're not sure of the US has enough debt to cover what it is. And I think we're going to start seeing that trend in Europe, certainly the Middle East, and certainly some of our allies in the Pacific.

Rob Spingarn - *Credit Suisse - Analyst*

And the president-elect is doing nothing to dissuade that?

Richard Cody - *L-3 Communications Holdings, Inc. - SVP of Washington Operations*

No, not at all.



Rob Spingarn - *Credit Suisse - Analyst*

He seems to be encouraging (multiple speakers)

Richard Cody - *L-3 Communications Holdings, Inc. - SVP of Washington Operations*

Those are my points that they're actually being encouraged which is a different posture than that has been in the past. And I think part of the story is, say, everybody needs to carry their weight a little bit more is what you're hearing. And one way to demonstrate that would be to engage more foreign military purchases and we've had their own core structure, if you will, and of course the interoperability is very desirable from our standpoint.

Rob Spingarn - *Credit Suisse - Analyst*

So when we think about sequestration to go back to that for a minute and we assume that if Trump follows through on what I think is his plan to get rid of it, He has a got a cooperative Congress, we would think. And if the fiscal 2018 -- fiscal 2017 is done or close to done, it will be a fiscal 2018 event. And so is that make your fiscal 2019 potentially a big wild card upside year?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

I mean, it's upside but just think about that number. I think it was \$0.5 trillion over 10 years. So just doing simple divisions, \$50 billion a year, which if you eliminated sequestration (inaudible) but that's an immediate \$50 billion uptick.

Richard Cody - *L-3 Communications Holdings, Inc. - SVP of Washington Operations*

It's an uptick, but more importantly for us, I can think about six or seven programs. Because of sequestration and now the CRS that happen each year, they've been hope the Pentagon and the different PM's and program management holding onto their money quarter-to-quarter not ready to execute because they're not sure what they're getting. And so when sequestration goes away, you have predictability. And predictability to our customer means, we get a little bit more predictability if we can flow our IRAD better and ramp up in a different way. But with the BCA and the threat of sequestration which we've never really had because it's always been mitigated with better -- the budget agreement. But sequestration goes away. The customer has more predictability, the cash flow more on the two and three year dollars than the one year dollars, and that helps us out.

Rob Spingarn - *Credit Suisse - Analyst*

While we're on the topic of acquisition and predictability and so forth, this is just announced that this shake up in the acquisition structure, does that have any immediate resonation of any type?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

No, it would be hard to predict this. We don't know which way the new team will go. I mean, there may have been a sense that things weren't moving fast enough to certain people's taste. But again, our relationship with the current acquisition team, if you will, as well as (inaudible) during this, was very positive. We said that. We just had a sit-down meeting with them within the last two or three weeks with Secretary Kendall and his staff. And we've been having a very frank and honest dialog between what (inaudible) and how can we deliver faster, how can we get on the contract faster, and how can we get rid of some of the red tape. I'd like to believe things were being worked on.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Yes, for those of you who don't know, there was a news out just yesterday, I think it was. Just saying they're changing the acquisition structure and taking the ATL position. Frank handles position and putting it into sort of two, there's an R&D (multiple speakers) acquisition piece. And, I guess, this is to increase the scale -- (multiple speakers)

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Well, it gives more control directly to the service chiefs, right? You're taking a central buyer and putting a piece in each branch.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

I think, this seems to me like a hard time, like -- because like you said, it can more back and we can get something else when the new people get it there. That's -- yes, so that's interesting.

QUESTIONS AND ANSWERS

Unidentified Audience Member

Switching gears a little bit, wanted to ask you more about your major upcoming competitions. Maybe we can run through some of those things that we should be looking for over the course of next year, 2017 and talk about it?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Sure. Well, the major ones are going to happen in the Vertex business. And Ralph, I know that you're right on the top of your head at all times.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Sure. So we have two meaningful re-competitions that will happen over the next 12 months. As Mike said, they're both in Vertex Aerospace, which is in the Aerospace Systems segment and they are the Army Fort Rucker maintenance contract and the Army C-12 contract. So together, there are about \$600 million of sales that are being re-competed and it should be decided some time middle of next year, with the new contracts starting probably early in 2018. So, we have very good performance on those two contracts. They're both going to be best value award selection criteria, which we think benefits L-3, given our past performance and we'll see what happens and we like our chances on those two re-competitions. Once we get beyond those two re-competes, we really have nothing like them again until they are re-competed in the future. So, you don't have any significant re-competition risk at all elsewhere in the Company over the next several years.

Unidentified Audience Member

Okay. And I know that you mentioned the best value which sounds promising. From a margin perspective, the existing contracts were done on what basis?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

One was best value and one was LPTA, low price technically acceptable.



Unidentified Audience Member

Okay. So that's good, that's a good step-up.

Ralph D'Ambrosio - L-3 Communications Holdings, Inc. - SVP & CFO

And we think we hold our margins on these -- on those two re-competitions.

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman & CEO

And that are the contracts that we currently are incumbent on to be re-competed. There's the flip side of that, where there is some competitions where we are not incumbent, where we are going to be competing. One of them is SOF-GLSS Lexington, Kentucky Special Operations Forces Depo, which is a significant piece of work over about a 10-year period of performance.

Unidentified Audience Member

How big is that one?

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman & CEO

Great.

Ralph D'Ambrosio - L-3 Communications Holdings, Inc. - SVP & CFO

That's expected to have annual sales at least \$0.5 billion per year, probably higher than that.

Unidentified Audience Member

What's the time frame.

Ralph D'Ambrosio - L-3 Communications Holdings, Inc. - SVP & CFO

That's in source selection as we speak. The timeframe is very similar to the other two. We should hear about it sometime middle of next year, with a new start no later than beginning of 2018.

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman & CEO

You're dealing with 5 to 10 year periods of performance on these, so (inaudible) \$2 billion, \$3 billion award and we have been the incumbent for 20 years and then we have lost the re-compete to Lockheed Martin five years ago or so.

Rob Spingarn - Credit Suisse - Analyst

Joe's got one up here.

Unidentified Audience Member

(inaudible - microphone inaccessible) it sounds like we're seeing the pendulum swing back the other way away from LTTA and more towards best value. Between that and just your efforts to expand the top line there, how do you think about the operating leverage? Is that [deficit] still doing a low-single digit margin? What can that reasonably get to, if you're able to win some of these awards and really get that top line up?

Ralph D'Ambrosio - L-3 Communications Holdings, Inc. - SVP & CFO

The Aerospace Systems segment?

Unidentified Audience Member

Specifically, Vertex.

Ralph D'Ambrosio - L-3 Communications Holdings, Inc. - SVP & CFO

Vertex today is a low-single digit margin business and we think that we can get that to the mid-single digits and that's after the absorption of the overheads that Vertex brings to the Company. So, the margins on an actual or incremental basis today are probably mid-single digits when you factor in the absorption benefits.

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman & CEO

So, there's two things really that can happen here, one of them is what you refer to was operating leverage, more volume, better absorption, better margins, but also I personally had a continuous dialog with our customers about that business and how it's going to be increasingly difficult to retain that in the portfolio, if it cannot produce a more normal margin that we used to seeing. I mean, it doesn't have to be 12, but three is not a number that's very interesting to us. And we are one of their more popular contractors, if you will, or given our past performance record and given that most of the primes have exited the space, there are not a lot of companies that are available with our credentials to do this work, and this is very important work if you have a son or daughter flying the airplanes around. So, we're hoping that they will be more open-minded to pay really what is worth because this is going to be hard to justify a long-term strategy here, a 2% to 3% margin. I mean, we need to see a path forward out of that as, I'm sure, you appreciate.

Richard Cody - L-3 Communications Holdings, Inc. - SVP of Washington Operations

One other piece of that. I talked you about the readiness for the fleet of the services. Also, they haven't put the modernization on the new EW stuff, the new radios, all the Apache's with a (inaudible). That's all been held up because of sequestration and the tight budget. When these service contracts come into reset the helicopters, reset the fixed wings, reset the soft C-130s and other things, right along with that, they're not going to put them into maintenance without putting these upgrades in as well. And so it will be a different -- once we get through a good BCA off the customer's back, it will be a lot different work very similar to what you saw in 2004, 2005, 2006, because they've got a buyback the conventional determinants on these aircraft.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Unidentified Company Representative

Yes, that's the pull through of these, yes.



Rob Spingarn - *Credit Suisse - Analyst*

Is there anybody else, because we're close to the end here? I guess, I'd like to just close with a couple more financial questions. So you guys are in the middle of a -- and this continues on with the discussion about the aerospace business, but you're in the process of boosting your margins over time, as part of you refresh on where you think it can go, and what the timeframe is? And then, Ralph, if you have any update or anything else that you can add on pension that we don't already know, just the latest where we are there.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP & CFO*

Sure. So on your first question, we continue to believe that we're going to continue to increase and improve our margins. One way to think about it is, if you consider where the Company's consolidated margins were at the peak of the last cycle, that's 2010-2011 time frame, our consolidated margins were about 11.4%. So our guidance for next year is 10%. So we expect that we're going at least back to 11.4% and we expect to go higher than that over the next few years. The details on the segment margin targets on the chart that we've provided today, they're on the website. And you also asked about pension, so when we gave our initial outlook or preliminary outlook for next year, it contemplates about a \$30 million increase in pension expense due to the lower discount rates that have occurred this year, as Mike talked about. But if you have been watching interest rates since the election, you will have noticed that they're up on average about 40 basis points. So, we'll talk more about this next week, but if you look at the sensitivity that we disclosed with the initial outlook for next year, 40 basis points translates into \$25 million less of pension headwind. So that would mean if interest rates hold where they are today through the end of this year, our pension increase next year will only be about \$4 million or \$5 million, which is another \$0.20 or so of EPS. So, that's certainly trending in the right direction and we'll see what happens in the remainder of the next month.

Rob Spingarn - *Credit Suisse - Analyst*

Okay. Well, with that, we're going to close the session. We have lunch next. I want to give you guys an extra thank you for coming down a week ahead of your own event, and I'm glad we can always make that work. I'm sure you've saved up some good stuff for next week, so that's what we expected.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

We certainly hope to see everyone, and you'll join us. (multiple speakers) something good for next week.

Rob Spingarn - *Credit Suisse - Analyst*

Absolutely. And then for anybody who's wondering, lunch is next door. And Kevin Michaels will be speaking on the aerospace supply chain and some of the changes that are happening there in terms of disintermediation. So, see you soon.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman & CEO*

Thank you, Rob.

Rob Spingarn - *Credit Suisse - Analyst*

Thank you guys.

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