ADVANCING our position
L-3 is advancing its position, growing customer relationships by delivering a broad array of products and services to meet critical national security and defense needs at home and around the world.
DEVELOP

L-3 is a leading Government Services provider for the United States and its allies. We support strength, security and stability with a growing array of highly specialized capabilities in training, enterprise IT, infrastructure and tailored, integrated international development programs.

PERFORM

Whether it’s advanced capabilities in avionics and displays, security and detection, microwave RF, SATCOM and antennas, sensors and simulation, or power and control, L-3’s breadth and depth in Specialized Products deliver the highest level of performance for customers worldwide.

L-3’s multi-band Ground Mobile Terminal (GMT) provides users with increased transmission capacity and enhanced operational functionality to execute their missions securely and quickly.
MODERNIZE

L-3 Aircraft Modernization and Maintenance capabilities support peak mission performance, efficiently and cost effectively, for the U.S. Department of Defense and military forces across the world. Continuous upgrading, retrofitting and resetting of fleets keep customers prepared for today’s threats—a highly complex, critical requirement that aligns precisely with L-3’s leading expertise and experience.
DEAR FELLOW SHAREHOLDERS:

Our 2008 performance was a testament to the business we’ve built over the past decade—a deep and broad collection of highly relevant capabilities, able to be configured for rapid deployment to meet customer needs.

We met or surpassed the commitments for 2008, from our financial results, to our stock repurchase program, to our on-time and on-budget delivery of the Army’s first two C-27J Spartan Joint Cargo Aircraft (JCA). Our results represented another strong step forward for L-3’s increasingly integrated and collaborative approach. Most of all, what we achieved is the result of the talent and dedication of our people.

I want to thank our employees for their skill, focus and hard work. You are the chief reason I am so confident we’ll continue to advance our position in 2009 and beyond.

RESULTS

L-3 delivered another very strong year in 2008, exceeding guidance in most measures of financial performance. We achieved companywide sales of $14.9 billion, a 7 percent increase over what we reported in 2007. Earnings per share for the year was $7.72, up 29 percent year over year (up 17 percent, excluding certain 2008 items), and our operating margins showed continued improvement, increasing by 20 basis points to 10.6 percent (excluding certain 2008 items).

The business continued to show strong cash generation in 2008. L-3 reported $1.4 billion in net cash from operating activities, and free cash flow of $1.2 billion, the latter representing a 6 percent increase over the previous year.

We continued our thoughtful management of assets and allocation of cash throughout the year to deliver value to our shareholders. We divested a non-core unit and a product line. We completed four acquisitions in 2008, spending $256 million to build our capabilities and market position in key business areas. We completed our $750 million share repurchase program in half the authorization period, and the Board authorized the company to repurchase up to $1 billion more in a new, two-year program.

These actions reflect our disciplined approach to cash allocation—including acquisitions, share repurchases and dividends—to increase shareholder value. In 2008, cash returned to shareholders totaled $941 million including share repurchases and dividends.

Our solid financial performance was driven by many important wins and accomplishments across our business in 2008. On pages 10–13 of this report, we provide a brief summary of the year’s highlights by business segment.

STRENGTH

From the incursion in Georgia, to the events in Gaza and the terrorist attack in Mumbai, 2008 was a stark reminder of the volatile geopolitical environment that exists in the world today. The new administration comes to the White House facing many more foreign policy challenges than the last administration eight years ago. We are clearly in an era when national security and defense policy will remain a very high priority.

L-3’s strengths and capabilities are extremely well aligned with the times. We have built a diverse business with limited exposure to shifts in Department of Defense (DoD) budget priorities—our largest contract is three percent of our total sales. The strongest areas of customer need at the DoD center on maximum situational awareness, fleet readiness, secure and persistent communications, and

Our plan is ADVANCING
STRATEGY

Our goal is to build on L-3’s place among the top performers in aerospace and defense. To accomplish that, we have deliberately positioned our company to lead across a broad spectrum of current and future DoD needs. By forming groups of L-3 and other key companies, we are continuing our disciplined expansion into marketing products and services outside the DoD. We are focused on expanding our business in Canada, the United Kingdom, Australia and New Zealand, as well as in certain countries in the Middle East and Asia—all markets where L-3’s ISR leadership represents particularly valuable offerings in today’s dynamic geopolitical climate. We’re also pursuing a number of commercial business opportunities, including placing L-3’s advanced ACCOLADE handheld wireless communications system in the mining industry.

L-3 is the world’s number one leader and a major player in the ISR market with capabilities that provide a full spectrum of capabilities across the electromagnetic spectrum. In addition to our core ISR business, we also offer a diverse range of technologies for space, electronic warfare, information technology, security, satellite communications, air traffic control, cyber defense, aerospace, and energy. With an expansive and growing presence in key markets, we are well positioned to meet the needs of tomorrow.

CONFIDENCE

The defense industry has been a steady performer throughout all economic climates. We are a proven leader in this space, with a diversified business and strengths that align strongly with an evolving marketplace.

L-3 is well equipped to meet the needs of tomorrow. I am very confident in our future.

Sincerely,

Michael T. Striano
Chairman, President and Chief Executive Officer

SELECTED FINANCIAL HIGHLIGHTS

In millions, except as share amounts

For the year ended December 31,

<table>
<thead>
<tr>
<th>2008(1)</th>
<th>2007</th>
<th>2006(1)</th>
<th>2005</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$14,901</td>
<td>$13,961</td>
<td>$12,477</td>
<td>$9,445</td>
</tr>
<tr>
<td>Operating income</td>
<td>1,665</td>
<td>1,448</td>
<td>1,111</td>
<td>997</td>
</tr>
<tr>
<td>Q2 2008 and 2006 items</td>
<td>(110)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Operating income before items</td>
<td>1,555</td>
<td>1,448</td>
<td>1,279</td>
<td>997</td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>929</td>
<td>756</td>
<td>526</td>
<td>509</td>
</tr>
<tr>
<td>Net Income(2)</td>
<td>949</td>
<td>756</td>
<td>526</td>
<td>509</td>
</tr>
<tr>
<td>Diluted earnings per share from continuing operations</td>
<td>7.56</td>
<td>5.98</td>
<td>4.22</td>
<td>4.20</td>
</tr>
<tr>
<td>Q2 2008 and 2006 items</td>
<td>(0.58)</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Diluted earnings per share from continuing operations before items</td>
<td>6.98</td>
<td>5.98</td>
<td>4.22</td>
<td>4.20</td>
</tr>
<tr>
<td>Diluted earnings per share(3)</td>
<td>7.72</td>
<td>5.98</td>
<td>4.22</td>
<td>4.20</td>
</tr>
<tr>
<td>Net cash from operating activities</td>
<td>1,387</td>
<td>1,270</td>
<td>1,074</td>
<td>847</td>
</tr>
<tr>
<td>Capital expenditures, net of dispositions</td>
<td>205</td>
<td>149</td>
<td>154</td>
<td>117</td>
</tr>
<tr>
<td>Free cash flow(4)</td>
<td>1,184</td>
<td>1,121</td>
<td>920</td>
<td>798</td>
</tr>
<tr>
<td>Shareholders’ equity</td>
<td>5,831</td>
<td>5,989</td>
<td>5,306</td>
<td>4,499</td>
</tr>
</tbody>
</table>

(a) The year ended December 31, 2008, includes: (1) a pre-tax gain of $133 million ($81 million after income taxes, or $0.66 per diluted share) comprised of a $126 million reversal of a current liability for pending and threatened litigation and $7 million for isolated actual interest at a rate of 27.25%, 2008 revision of the U.S. Court of Appeals which vacated an adverse 2006 verdict; (2) a pre-tax gain of $39 million ($25 million after income taxes, or $0.20 per diluted share) in connection with our voluntary review of past stock option granting practices, which were recorded during the 2008 second quarter (collectively the “Q2 2008 Items”).

(b) The year ended December 31, 2006, includes: (1) a pre-tax charge of $120 million ($78 million after income taxes, or $0.38 per diluted share) for an adverse verdict, and a pre-tax charge of $19 million ($15 million after income taxes, or $0.10 per diluted share) in connection with our voluntary review of past stock option granting practices, which were recorded during the 2006 second quarter (collectively the “Q2 2006 Items”).

(c) Net income and diluted earnings per share for the year ended December 31, 2006 include an after-tax gain of $210 million of diluted share from the divestiture of our 8% ownership interest in Medical Education Technologies, Inc.

(d) We define “free cash flow” as net cash flows from operating activities, less capital expenditures, net of dispositions. For the year ended December 31, 2008, free cash flow is comprised of $125 million of net cash flows from operating activities and $84 million for the settlement of Titan shareholder class action and derivative action lawsuits, which were liabilities that L-3 assumed as part of the Titan acquisition.

*Operating income and diluted EPS for 2008 and 2006 exclude the Q2 2008 and 2006 Items, respectively, described above.
Government Services

The U.S. Marine Corps chose L-3 as prime contractor to implement Praetorian, L-3’s next-generation, open-architecture 3D video observation system. Praetorian is the Marines’ first intelligent Tactical Video Capture System (TVCS), designed to enable users to view several sites under surveillance simultaneously. The system delivers real-time and recorded 3D video to support rapid information analysis and action to stop emerging threats. L-3 is installing Praetorian at military training sites in the United States and overseas.

L-3 acquired International Resources Group, Inc. (IRG), a professional services firm that provides specialized management, policy and training support to U.S. government agencies and international development organizations. The transaction expands L-3 capabilities in energy, environment and natural resource management, relief and reconstruction, and economic development.

In 2008, NASA’s Johnson Space Center (JSC) awarded L-3 a five-year contract to enhance space training of NASA engineers and astronauts. The contract brings L-3’s space systems domain expertise in navigation and control, robotics, dynamics, guidance, avionics, electrical power systems, and ground systems technologies to the JSC program.

The U.K. Ministry of Defence (MoD) selected L-3 as prime contractor to supply an Integrated Broadcast Service (IBS) that provides real-time intelligence capability to the MoD and its operational forces. The contract encompasses program management, system design, platform integration and systems engineering for requirements development, testing and evaluation, and lifecycle management.

L-3 has significantly expanded its portfolio of global security solutions, training and enterprise IT capabilities as well as its staff support services.

In 2008, L-3 began delivery of the ROVER 5, the next generation of its highly successful Remote Operated Video Enhanced Receiver (ROVER) product line. ROVER 5 transmits and receives live video and other data to and from UAVs, gunships and fighter aircraft for enhanced ground force situational awareness.

In 2008, L-3 continued to build on its Common Data Link (CDL) industry leadership with the shipment of its smallest-ever CDL terminal to the U.S. Air Force. It also brought full-motion video and multiple-terminal interoperability to small ISR platforms, including the 105 pound L-3 BAM Viking Unmanned Aircraft System (UAS).

The U.S. Navy awarded a study contract to a Northrop Grumman/L-3 team in 2008 for the EPX program. The Navy is studying EPX as a next-generation manned multi-intelligence aircraft to provide intelligence, surveillance, reconnaissance and targeting (ISR&T) support for carrier strike groups and theaters, combatant and national commanders. The contract is the first step in a multi-year selection process by the Navy aimed at transforming the maritime ISR&T mission.

Northrop Grumman, with L-3 as a subcontractor, also won the competition for the Broad Area Maritime Surveillance (BAMS) initiative for the U.S. Navy. The BAMS program will provide enhanced situational awareness in the battlespace through persistent, multi-sensor maritime ISR&T, helping to protect its fleet through a new capability to track, classify and identify hundreds of maritime, coastal and land targets anywhere in the world.

L-3’s REM-Sense™ family of unattended ground sensors (UGS) covertly detects, classifies and tracks personnel and vehicles. During 2008, L-3 received recognition from the U.S. Army for its REM-Sense ground sensor systems playing in securing a forward operating base that had previously been under attack by insurgents. In 2009, L-3 expects its UGS to continue to play a key role in supporting theater force protection missions.

L-3 has a broad array of National Security Agency (NSA)-certified devices for protecting classified communications up to the Top Secret level. In 2008, L-3 supported in-theater operations by completing critical deliveries of the Secure Terminal Equipment (STE), Secure Voice Conferencing System (SVCS), OMNI™ terminal, Talon® encryptor and Red Eagle in-line network encryptors (INEs), which incorporate NetHawk VPN technology licensed from Cylink. During 2009, L-3 anticipates receiving formal NSA certification of its L-3 Guardian™ product, which will provide government users with secure voice and email functionality in a single, mobile device. In 2009 it also expects its encryptors to be the first to achieve certification in compliance with the NSA’s High Assurance Internet Protocol Encryptor Interoperability Specification (HAIPE® IS)* version 5.

L-3 is implementing the C3ISR (Command, Control, Communications, Intelligence, Surveillance and Reconnaissance) capabilities of the U.S. Marine Corps, which is its largest defense customer. L-3 was awarded the Praetorian contract for the next generation of its 3D video observation system.

C3ISR
Command, Control, Communications, Intelligence, Surveillance and Reconnaissance

In 2008, L-3 began delivery of the ROVER 5, the next generation of its highly successful Remote Operated Video Enhanced Receiver (ROVER) product line. ROVER 5 transmits and receives live video and other data to and from UAVs, gunships and fighter aircraft for enhanced ground force situational awareness.

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* HAIPES is a registered trademark of the National Security Agency.
AM&M

Aircraft Modernization and Maintenance

Working with partner Alenia Aeronautica, L-3 successfully delivered the first two C-27J Spartan Joint Cargo Aircraft (JCA) to the U.S. Army in 2008. The L-3/Alenia team demonstrated unprecedented performance throughout all phases of the program. The C-27J is designed to perform MEDEVAC, troop movement, and aerial drop, humanitarian assistance and homeland security missions for the U.S. Army and U.S. Air Force. The C-27J JCA will play a key role by providing aerial sustainment and re-supply support.

The U.S. Air Force selected L-3 in 2008 as a prime contractor for its Future, Flexible Acquisition and Sustainment Tool (F’FAST) program. L-3 will compete for task and delivery orders to provide modifications, engineering, development, repairs, and limited, critical or contingency spares for all Air Force-managed weapons systems.

L-3’s Army Modernization Division was awarded a contract to maintain and service over 500 fixed and rotary wing aircraft at Ft. Rucker, AL. With more than 3,200 skilled personnel working on the program, this is the DoD’s largest aircraft maintenance initiative.

L-3’s successful history maintaining the aircraft fleets of the Canadian Forces resulted in an innovative structural maintenance and life extension program for the CF-18 Hornet. In securing the contract, L-3 analyzed years of data regarding aircraft usage and maintenance history to develop unique software systems and an integrated planning tool to optimize repair, modification and certification processes that extend the life of the CF-18.

In 2008, ACSS, an L-3 and Thales company, was awarded a contract by the FAA to equip 20 US Airways Airbus A330s for trials of its SafeRoute product. SafeRoute’s SALLM 2.5 technology is the first and only runway incursion tool to enable aircraft traffic to be displayed on a moving map of the airport surface using a Class 2 electronic flight bag (EFB). As part of the agreement, US Airways and ACSS will consider a range of technologies to increase situational awareness. L-3 Displays Group’s Class 2 EFB product is a portable unit capable of electronically storing and displaying information, such as flight and operation manuals, flight checklists and other information.

The U.S. Navy awarded an initial contract to L-3 to deliver its Power Node Control Center (PNCC) as part of the Navy’s Cruiser Modernization Program. The PNCC is L-3’s new integrated electrical system that can be configured to simultaneously perform as a transfer switch, frequency converter, circuit breaker, power conditioner, power transformer and motor controller.

L-3 also received an initial contract from the U.S. Navy to deliver medium-voltage motor drives (MVMDs). Under the contract, L-3 is beginning studies for potential fuel efficiency modifications for surface combatant vessels using MVMD technology. L-3’s MVMD products enable greater efficiencies in a smaller, lighter package to meet weight and space restrictions on surface combatant ships.

The U.S. Army awarded L-3 an initial contract to provide transmissions for the Bradley Fighting Vehicle program. The contract establishes L-3 as the Product Support Integrator (PSI) with responsibility for all aspects of this program, including material procurement, vendor and parts qualification, process improvements, engineering, field support, quality and reliability.

L-3’s innovative Prism™ avionics architecture was selected as the next-generation Special Mission Display Processor for upgraded C-130J platforms. Offering mission-critical information assurance, video and communication processing, Prism has been independently funded and developed by L-3. Engineers leveraged a legacy of product success on the F-35 Joint Strike fighter, T-38 and C-27J platforms to develop a real-time net-centric software and hardware system for enhanced situational awareness.

L-5 advanced soldier systems integrate multiple competencies from across the company to realize synergies and maximize value. In early 2009, the company was awarded a five-year contract for L-5 Submersible Night Vision Systems (SBNVS) by the U.S. Naval Surface Warfare Center.

L-3 won a competition in 2008 to provide new simulators.com for U.S. Air Force F-16 pilot training, defeating the incumbent service providers. The contract includes options to buy up to 20 mission training centers (MTCs) for Block 40/50 F-16 aircraft with networked simulators that allow multi-ship training.

L-3 is a long-term supplier of the U.S. Army’s Prophets mobile ground-based tactical signals intelligence system, critical to battlefield management and early warning of potential threats. In 2008, the U.S. Army awarded L-3 a contract to provide 49 Prophet Sensor and Control vehicles.

With the 2008 acquisition of Electro-Optical Systems (EOS), L-3 extended its image-enhancing products to meet growing global demand. The EOS transaction immediately strengthened L-3’s night vision technology and electro-optical offerings to military, commercial and public safety customers.

In 2008, the U.S. Transportation Security Administration (TSA) accepted delivery of 50 L-3 ProVision™ Checkpoint Security Systems for airport use. ProVision employs proven, groundbreaking active millimeter wave technology to safely and accurately identify concealed threats of almost any material, including liquid, powder, ceramic, plastic and metal.
In 2008, we demonstrated our ability to respond rapidly to an urgent customer demand with the full scope of our capabilities, executing nose-to-tail aircraft modification to create an advanced, integrated ISR capability to support ground forces. With an increased level of inter-company collaboration, we are able to combine cutting-edge technologies with industry-leading systems integration expertise, creating the ability to deliver a program that normally takes years to complete.

Proving this high-value capability opens a major growth opportunity for L-3 to meet the urgent need for persistent data and other advanced situational awareness technology.
Our on-time, on-budget delivery of the first two C-27J Spartan Joint Cargo Aircraft (JCA) demonstrated a new level of L-3 ability and performance as a prime contractor. The JCA program is significant in scale and scope—up to 78 JCAs are planned for delivery by 2015. The aircraft is also being evaluated for use as an Air Force Special Operations gunship, potentially another significant growth driver for L-3.

ISR will continue to be crucial to the United States and its allies in the Global War on Terror and other challenges that emerge around the world. L-3’s growing credibility as a prime contractor on large, quick-reaction programs creates a major field of opportunity for sustained, long-term growth.
L-3 continues to build upon its position as a leading provider of marine power systems technology and support to the U.S. Navy and international maritime forces. We’re also progressing in efforts to expand our advanced bridge-to-propeller systems and service capabilities to adjacent commercial markets. The commercial customer base includes builders of tankers and other vessels for the oil and gas industry, ships for ocean freight lines, and cruise vessels. In 2008 we formed the Marine & Power Systems Group to increase the value L-3 can deliver to defense and commercial customers.

The long-term opportunity in the commercial marine marketplace is significant. L-3’s maritime leadership represents real potential value for shipbuilders worldwide.
The use of UAV technologies continues to grow. With a leader’s expertise and capabilities across all four segments of its business, L-3 has a strong market presence as a technology supplier, prime contractor and service provider. We are involved at some level in every major UAV and UAS platform in use or under development in the U.S. armed forces.

L-3 is moving aggressively to advance its leadership position in this critical, long-term area of need. We are investing to develop new, progressively higher-value offerings to leverage the depth and breadth of our UAV expertise and capabilities to drive growth.
Today’s constantly changing geopolitical landscape has created a growing need for sophisticated solutions to promote national security, rule of law and human development in key regions of the world. “Soft power” leverages all the instruments of national power with programs that balance and integrate defense, diplomacy and development to meet that need.

With the 2008 acquisition of IRG, L-3 has built an even stronger capability to provide integrated soft power solutions to support U.S. national security and foreign-assistance agencies, foreign governments and international organizations. L-3’s leadership in government services positions it to be a valuable partner in the development and implementation of solutions in fragile and unstable states in particular, bridging security and development, enhancing civil-military collaboration and integrating multiple disciplines for reconstruction and stabilization.
EXECUTIVE MANAGEMENT

Curtis Brasure
Executive Vice President of Corporate Strategy and Development

Steven V. Adams
Senior Vice President of Washington Operations

Robert W. Ruchoff
Senior Vice President

David T. Butler III
Senior Vice President of Business Operations

Steven M. Post
Senior Vice President, General Counsel and Corporate Secretary

Ralph G. D'Ambrosia
Vice President and Chief Financial Officer

GROUP PRESIDENTS

James W. Dunn
Senior Vice President and President of Sensors & Simulation Group

Steve Kantor
Senior Vice President and President of Marine & Power Systems Group

John C. McNellis
Senior Vice President and President of Integrated Systems Group

Charles J. Sopher
Senior Vice President and President of Products Group

Carl E. Vassar
Senior Vice President and President of L-3 Services Group

John S. Mega
Vice President and President of Microwave Group

Sara S. Opp
Vice President and President of Communication Systems-West

Gregory B. Roberts
Vice President and President of Communication Systems-East

CORPORATE INFORMATION

Corporate Headquarters
L-3 Communications is an equal opportunity employer and does not discriminate on the basis of age, race, sex, sexual orientation, creed, color, national origin, ancestry, marital status, disability or any other characteristic protected by law. All employment related decisions are based solely on relevant criteria including experience and suitability.

Certifications
Certification statements by the chairman, president and chief executive officer, and the vice president and chief financial officer of L-3 Communications Holdings, Inc. and L-3 Communications Corporation required to be filed with the SEC pursuant to Section 302 of the Sarbanes-Oxley Act have been filed as exhibits to our Annual Report on Form 10-K for the year ended December 31, 2008. In addition, an annual CEO certification was submitted by the CEO on May 29, 2008, in accordance with the NYSE’s listing standards.

Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995
Except for historical information contained herein, the matters set forth in this Annual Report are forward-looking statements. Statements that are predictive in nature, that depend upon or refer to events or conditions or that include words such as “expects,” “anticipates,” “intends,” “plans,” “believes” “estimates” and similar expressions are forward-looking statements. The forward-looking statements set forth herein involve a number of risks and uncertainties that could cause actual results to differ materially from any such statement, including the risks and uncertainties discussed in the Company’s Safe Harbor Compliance Statement for Forward-Looking Statements included in the Company’s recent filings, including Forms 10-K and 10-Q, with the Securities and Exchange Commission. The forward-looking statements speak only as of the date made, and the Company undertakes no obligation to update these forward-looking statements. For a discussion of other risks and uncertainties that could impair our results of operations or financial condition, see Part I, Item IA “Risk Factors” and Note 18 to our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2008.

Equal Opportunity Employer
L-3 Communications is an equal opportunity employer and does not discriminate on the basis of age, race, sex, sexual orientation, creed, color, national origin, ancestry, marital status, disability or any other characteristic protected by law. All employment related decisions are based solely on relevant criteria including experience and suitability.

Credit
Page 18 Photo: U.S. Navy photo by Mass Communication Specialist 3rd Class Walter W. Wayman © 2009 L-3 Communications Holdings, Inc. Printed in the USA.