

Fourth Quarter Earnings Call January 30, 2013



Financial Data Charts

This presentation consists of L-3 general capabilities and administrative information that does not contain controlled technical data as defined within the International Traffic in Arms (ITAR) Part 120.10 or Export Administration Regulations (EAR) Part 734.7-11.

Forward Looking Statements

Certain of the matters discussed in these slides, including information regarding the company's 2013 financial outlook 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 constitute forward-looking statements. Although we believe that these statements are based upon reasonable assumptions, including projections of total sales growth, sales growth from business acquisitions, organic sales growth, consolidated operating margins, total segment operating margins, interest expense, earnings, cash flow, research and development costs, working capital, capital expenditures and other projections, they are subject to several risks and uncertainties, and therefore, we can give no assurance that these statements will be achieved. Such statements will also be influenced by factors which include, among other things: our dependence on the defense industry and the business risks peculiar to that industry, including changing priorities or reductions in the U.S. Government defense budget; backlog processing and program slips resulting from delayed funding of the Department of Defense (DoD) budget; our reliance on contracts with a limited number of agencies of, or contractors to, the U.S. Government and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding our contracts with the U.S. or foreign governments and the results of any investigation of our contracts undertaken by the U.S. or foreign governments; our ability to retain our existing business and related contracts (revenue arrangements); our ability to successfully compete for and win new business and related contracts (revenue arrangements) and to win re-competitions of our existing contracts; our ability to identify and acquire additional businesses in the future with terms that are attractive to L-3 and to integrate acquired business operations; the impact of any strategic initiatives undertaken by us, and our ability to achieve anticipated benefits; our ability to maintain and improve our consolidated operating margin and total segment operating margin in future periods; our ability to obtain future government contracts (revenue arrangements) on a timely basis; the availability of government funding or cost-cutting initiatives and changes in customer requirements for our products and services; our significant amount of debt and the restrictions contained in our debt agreements; our ability to continue to retain and train our existing employees and to recruit and hire new qualified and skilled employees as well as our ability to retain and hire employees with U.S. Government security clearances; actual future interest rates, volatility and other assumptions used in the determination of pension benefits and equity based compensation, as well as the market performance of benefit plan assets; our collective bargaining agreements, our ability to successfully negotiate contracts with labor unions and our ability to favorably resolve labor disputes should they arise; the business, economic and political conditions in the markets in which we operate, including those for the commercial aviation, shipbuilding and communications markets; global economic uncertainty; the DoD's contractor support services in-sourcing and efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts (revenue arrangements) on schedule; our international operations; our extensive use of fixed-price type contracts as compared to cost-plus type and time-and-material type contracts; the rapid change of technology and high level of competition in the defense industry and the commercial industries in which our businesses participate; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the outcome of litigation matters, including in connection with jury trials; results of audits by U.S. Government agencies; results of on-going governmental investigations, including potential suspensions or debarments; the impact on our business of improper conduct by our employees, agents or business partners; anticipated cost savings from business acquisitions not fully realized or realized within the expected time frame; the outcome of matters relating to the Foreign Corrupt Practices Act (FCPA) and similar non-U.S. regulations; ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations; competitive pressure among companies in our industry; and the fair values of our assets, which can be impaired or reduced by other factors, some of which are discussed above.

For a discussion of these and other risks and uncertainties that could impair our results of operations or financial condition, see "Part I — Item 1A — Risk Factors" and Note 19 to our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2011, as modified by the Form 8-K filed on November 20, 2012, "Part I — Item 2 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview and Outlook — Industry Considerations," included in our Quarterly Reports on Form 10-Q for the quarters ended September 28, 2012, June 29, 2012 and March 30, 2012, and any material updates to these factors contained in any of our future filings.

Our forward-looking statements are not guarantees of future performance and the actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Given these uncertainties, you should not place any reliance on these forward-looking statements. These forward-looking statements also represent our estimates and assumptions only as of the date that they were made. We expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them, after the date of these slides to reflect events or changes in circumstances or changes in expectations or the occurrence of anticipated events.

Fourth Quarter Results



Select Financial Data - Fourth Quarter

(\$ in Millions, except per share amounts)

	4Q12	4Q11	vs. 4Q11
Sales	\$3,560	\$3,543	0.5%
Segment Operating Margin	10.2%	11.2%	-100 bps
Segment Operating Income	\$364	\$397	-8%
Interest Expense	\$46	\$52	-12%
Interest and Other Income (Expense)	\$2	\$(10)	n.m.
Debt Retirement Charge	\$5	\$17	-71%
Tax Rate	31.7%	7.6%	n.m.
Diluted Shares	94.3	100.9	-7%
Diluted Earnings Per Share	\$2.25	\$2.49	-10%
Adjusted Diluted Earnings Per Share (EPS)	\$2.25	\$2.21	2%
Net Cash from Operating Activities	\$539	\$482	12%
Free Cash Flow	\$452	\$437	3%

Notes: (1) 4Q11 adjusted diluted EPS excludes a tax benefit of \$78M or \$0.77 per share, and non-cash impairment charges of \$57M (\$50M after taxes, or \$0.49 per share), comprised of a goodwill impairment charge of \$43M (\$42M after taxes, or \$0.41 per share), and a long-lived assets impairment charge at an equity method investment of \$14M (\$8M after taxes, or \$0.08 per share). These items are collectively referred to as the 4Q11 Items.

(2) Excluding the 4Q11 Items, the 2011 tax rate would have been 31.9%.

(3) See Reconciliation of GAAP to Non-GAAP Measurements.



Segment Results - Fourth Quarter

(\$ in Millions)

<u>Segment</u>	<u>4Q12 Sales</u>	<u>Sales Growth vs. 4Q11</u>	<u>4Q12 Operating Margin</u>	<u>Margin Change vs. 4Q11 (bps)</u>
Electronic Systems	\$ 1,617	4%	11.9%	-190
C ³ ISR	967	-5%	9.5%	-130
AM&M	629	2%	9.1%	+130
NSS	347	-4%	6.6%	-20
Consolidated	\$ 3,560	0.5%	10.2%	-100

Note: During 1Q12, the company re-aligned the management and organizational structure of a business unit, and made related reclassifications between its C³ISR and Electronic Systems segments. See Supplemental Segment Data slide for the previous and revised 4Q11 segment data presentation.

Full Year Results



Select Financial Data - Full Year

(\$ in Millions, except per share amounts)

	2012	2011	vs. 2011
Sales	\$13,146	\$13,158	-0.1%
Segment Operating Margin	10.3%	11.0%	-70 bps
Segment Operating Income	\$1,351	\$1,442	-6%
Interest Expense	\$184	\$204	-10%
Interest and Other Income (Expense)	\$8	-	n.m.
Debt Retirement Charge	\$13	\$35	-63%
Tax Rate	32.2%	25.5%	+670 bps
Diluted Shares	97.6	105.6	-8%
Diluted Earnings Per Share	\$8.01	\$8.08	-1%
Adjusted Diluted EPS	\$8.01	\$7.82	2%
Net Cash from Operating Activities	\$1,231	\$1,231	0%
Free Cash Flow	\$1,050	\$1,113	-6%

Notes: (1) 2011 adjusted diluted EPS excludes a net gain of \$0.26 per share for 4Q11 Items.

(2) Excluding the 4Q11 Items, the 2011 tax rate would have been 31.2%.

(3) See Reconciliation of GAAP to Non-GAAP Measurements.



Segment Results - Full Year

(\$ in Millions)

Segment	2012 Sales	Sales Growth vs. 2011	2012 Operating Margin	Margin Change vs. 2011 (bps)
Electronic Systems	\$ 5,677	1%	11.8%	-100
C ³ ISR	3,601	3%	10.1%	-120
AM&M	2,483	2%	9.5%	+10
NSS	1,385	-14%	5.7%	-50
Consolidated	\$13,146	-0.1%	10.3%	-70

Note: During 1Q12, the company re-aligned the management and organizational structure of a business unit, and made related reclassifications between its Electronic Systems and C³ISR and segments. See Supplemental Segment Data slide for the previous and revised 2011 segment data presentation.



2013 Financial Guidance



2013 Consolidated Financial Guidance

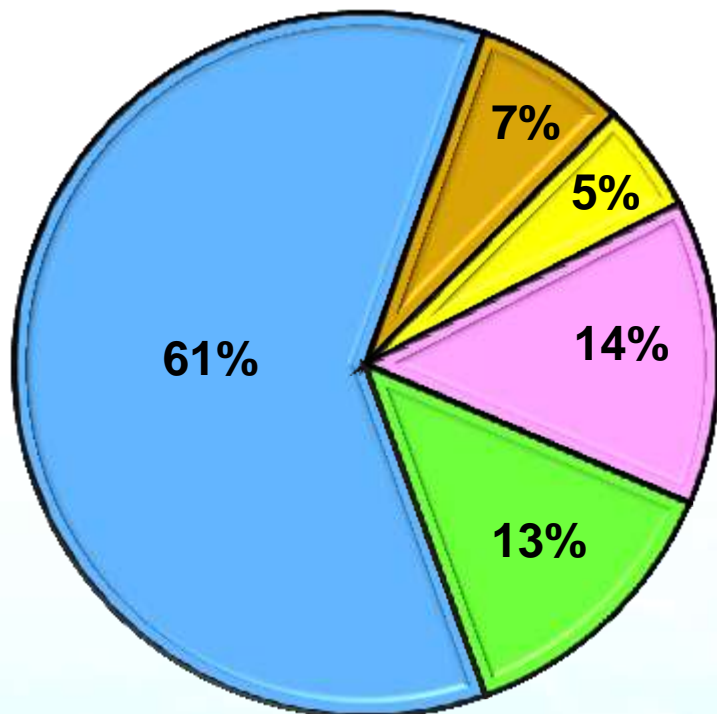
(in Millions, except per share amounts)

	Current Guidance (Jan. 30, 2013)	Midpoint vs. 2012
Net Sales	\$12,550 to \$12,750	-4%
Operating margin	10.0%	-30 bps
Interest expense	\$176	-4%
Interest and other income	\$12	n.m.
Debt retirement charges	-	-\$13
Tax rate	32.0%	-20 bps
Diluted Shares	90.1	-8%
Diluted EPS	\$8.15 to \$8.35	3%
Free cash flow	\$1,030	-2%

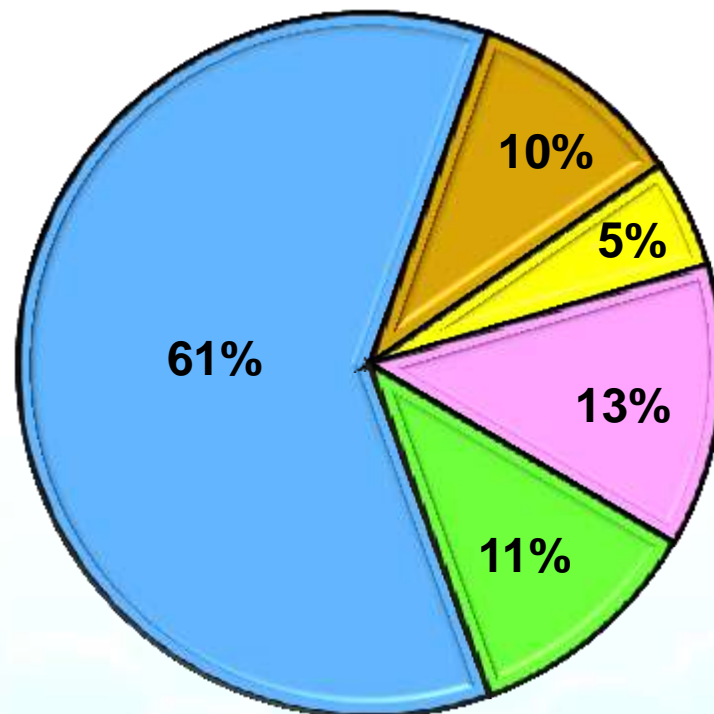
- Notes: (1) Assumes no Sequestration spending reductions to the fiscal year 2013 (FY13) DoD Budget and that the FY13 Continuing Resolution Authority will not be extended.
- (2) 2013 estimated pension expense (FAS net CAS) \$14M >2012, reducing operating margin ~10 bps. Assumes a 4.15% discount rate and 2013 weighted average pension asset return of 8.15%.
- (3) The current guidance includes a tax benefit of \$18M, or \$0.20 per share for the enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, which retroactively reinstated and extended the U.S. federal research and experimentation tax credit (R&E Credit) for all of 2012 and 2013.
- (4) See Reconciliation of GAAP to Non-GAAP Measurements.

End Customer Sales Mix Trends

2013 Estimate



2012 Actual



Direct to End Customer = 67%
Indirect to End Customer = 33%

- U.S. Department of Defense (DoD) - All Other
- DoD Iraq/Afghanistan
- Other U.S. Government
- Commercial
- Foreign Government

2013 Segment Guidance

(\$ in Millions)

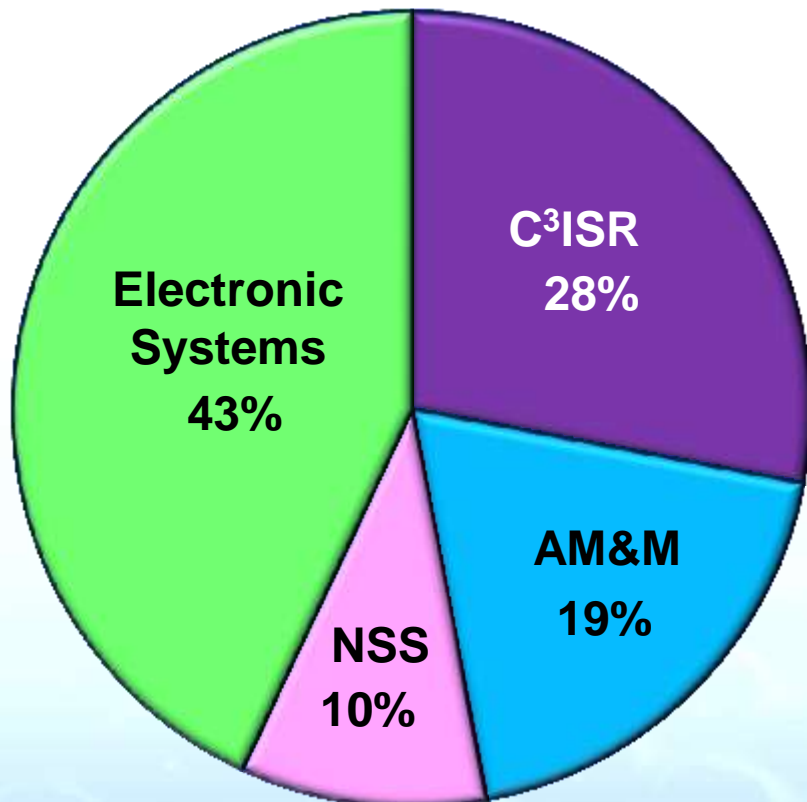
Segment	Net Sales	Midpoint Sales vs. 2012	Operating Margin	Midpoint Margin vs. 2012 (bps)	Higher Pension Margin Impact* (bps)
Elect Systems	\$5,425 to \$5,525	-4%	10.7% to 10.9%	-100	+10
C ³ ISR	\$3,500 to \$3,600	-1%	10.4% to 10.6%	+40	-50
AM&M	\$2,325 to \$2,425	-4%	9.1% to 9.3%	-30	n.c.
NSS	\$1,200 to \$1,300	-10%	6.4% to 6.6%	+80	n.c.
L-3 Consolidated	\$12,550 to \$12,750	-4%	10.0%	-30	-10

* Represents the reduction to 2013 operating margin caused by higher estimated pension expense (FAS net of CAS) of \$14M (\$17M higher in C³ISR, partially offset by a \$3M reduction in Electronic Systems).

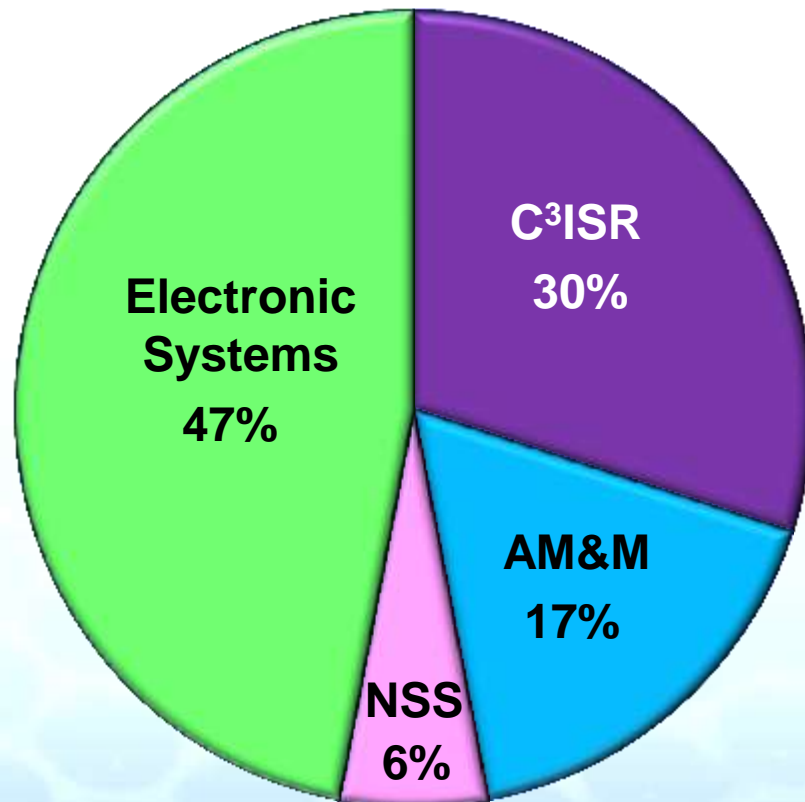


Segment Mix: 2013 Guidance Midpoints

Net Sales



Operating Income



Cash Flow Data

Free Cash Flow

(\$ in Millions)

	2013 Guidance	2012 Actual	2011 Actual
Income from continuing operations	\$ 750	\$ 788	\$ 864
Impairment charges	-	-	57
Depreciation & amortization	225	228	230
Deferred income taxes	60	82	124
401K common stock match	110	125	113
Stock-based employee compensation	55	59	57
Working capital/other items	25	(51)	(214)
Capital expenditures, net	(195)	(205)	(181)
Income tax payments attributable to discontinued operations	-	24	63
Free cash flow	<u>\$ 1,030</u>	<u>\$ 1,050</u>	<u>\$ 1,113</u>

Robust Cash Flow

Supplemental Cash Flow Data

(\$ in Millions)

	2013 Guidance	2012 Actual	2011 Actual
Cash interest payments	\$ 170	\$ 198	\$ 238
Income tax payments, net ⁽¹⁾	295	289	194
FAS pension expense	182 ^{(2) (3)}	179	145
CAS pension cost ⁽⁴⁾	115	126	131
Pension contributions	165	173	176

(1) Income tax payments, net exclude payments attributable to discontinued operations of \$24M for 2012 and \$63M for 2011.

(2) FAS pension expense represents pension expense determined using U.S. GAAP and assumes a 4.2% discount rate (vs. 5.02% for 2012) and a 2013 weighted average pension asset return of 8.1%.

(3) Estimated 2013 Pension Expense Sensitivity: A 25 bps increase/decrease in 12/31/12 discount rate would decrease/increase 2013 pension expense by ~\$14M and decrease/increase the 12/31/12 unfunded obligation by ~\$121M.

(4) CAS pension cost represents estimated allowable and reimbursable pension cost under U.S. Government procurement regulations (determined using Cost Accounting Standards or CAS) on L-3's U.S. Government contracts.

Depreciation, Amortization and Capital Expenditures

(\$ in Millions)

Segment	2012				2011			
	D&A		CapEx, Net		D&A		CapEx, Net	
	4Q12	2012	4Q12	2012	4Q11	2011	4Q11	2011
Electronic Systems	\$ 41	\$147	\$ 34	\$ 95	\$ 39	\$148	\$ 29	\$ 95
C ³ ISR	12	47	45	90	12	44	25	68
AM&M	6	20	6	15	5	19	6	13
NSS	3	14	2	5	6	19	2	5
Consolidated	\$ 62	\$228	\$ 87	\$205	\$ 62	\$230	\$ 62	\$181

D&A = Depreciation and Amortization

CapEx = capital expenditures net of dispositions of property, plant and equipment.



Cash Sources and Uses, and Capitalization and Leverage

Cash Sources and Uses

(\$ in Millions)

	2013 Guidance	2012 Actual	2011 Actual
Beginning cash	\$ 349	\$ 764	\$ 607
Free cash flow from continuing ops.	1,030	1,050	1,113
Free cash flow from discontinued ops.	-	50	185
Engility spin dividend, gross	-	335	-
Acquisitions, net	(10)	(343)	(19)
Dividends	(198)	(195)	(188)
Share repurchases	(500)	(872)	(958)
Debt repayments	(250)	(500)	(11)
Other, net	29	60	35
Ending cash	<u>\$ 450</u>	<u>\$ 349</u>	<u>\$ 764</u>

Note: See Reconciliation of GAAP to Non-GAAP Measurements.

Capitalization and Leverage

(\$ in Millions)

	12/31/12 Actual	12/31/11 Actual
Cash	\$349	\$764
Debt	\$3,629	\$4,125
Equity	5,547	6,724
Invested Capital	\$9,176	\$10,849
Debt/Invested Capital	39.5%	38.0%
Bank Leverage Ratio	2.04x	2.11x*
Available Revolver	\$1,000	\$997

Note: Equity includes non-controlling interests (minority interests) of \$76M as of Dec 31, 2012 and \$89M as of Dec 31, 2011.

* Represents continuing operations only.

Appendix

Debt Balances and Maturities

(\$ in Millions)

	12/31/12 Actual	Type	Maturity Date	Redemption Premium
Senior:				
Revolver	\$ -	L+150 bpts	2/3/17	n.a.
3.95% Senior Notes	500	fixed	11/15/16	T+0.50% make-whole
5.2% Senior Notes	1,000	fixed	10/15/19	T+0.30% make-whole
4.75% Senior Notes	800	fixed	7/15/20	T+0.25% make-whole
4.95% Senior Notes	650	fixed	2/15/21	T+0.25% make-whole
Subordinated:				
3% CODES	689	fixed	8/1/35	0%
Unamortized Discounts	(10)			
Total	\$ 3,629			

Notes: (1) The contingent convertible notes (CODES) contain "puts" that holders can exercise on Feb 1, 2016, and every 5-year anniversary thereafter at a price of 100%. Current conversion price is \$91.21.

(2) T = comparable U.S. treasury note rate.



Supplemental Segment Data

(\$ in Millions)

	Previous Presentation		Reclassification		Revised Presentation	
	2011	4Q11	2011	4Q11	2011	4Q11
Sales:						
Electronic Systems	\$ 5,540	\$ 1,522	\$ 88	\$ 33	\$ 5,628	\$ 1,555
C ³ ISR	3,568	1,046	(88)	(33)	3,480	1,013
AM&M	2,440	615	-	-	2,440	615
NSS	1,610	360	-	-	1,610	360
Consolidated	<u>\$ 13,158</u>	<u>\$ 3,543</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,158</u>	<u>\$ 3,543</u>
Operating Margin:						
Electronic Systems	12.8%	13.5%			12.8%	13.8%
C ³ ISR	11.3%	11.4%			11.3%	10.8%
AM&M	9.4%	7.8%			9.4%	7.8%
NSS	6.2%	6.8%			6.2%	6.8%
Consolidated	11.0%	11.2%			11.0%	11.2%

Note: Consolidated operating margin excludes the 4Q11 non-cash goodwill impairment charge of \$43M.

Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2013</u> <u>Guidance</u>	<u>2012</u> <u>Actual</u>	<u>4Q12</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>	<u>4Q11</u> <u>Actual</u>
Diluted Earnings Per Share				\$ 8.08	\$ 2.49
Add: Non-cash impairment				0.48	0.49
Less: Tax benefit				(0.74)	(0.77)
Adjusted earnings per share				<u>\$ 7.82</u>	<u>\$ 2.21</u>
Net cash from operating activities	\$ 1,225	\$ 1,231	\$ 539	\$ 1,231	\$ 482
Less: Capital expenditures	(200)	(210)	(86)	(187)	(63)
Add: Dispositions of property, plant and equipment	5	5	(1)	6	1
Income tax payments attributable to discontinued operations	-	24	-	63	17
Free cash flow	<u>\$ 1,030</u>	<u>\$ 1,050</u>	<u>\$ 452</u>	<u>\$ 1,113</u>	<u>\$ 437</u>

