

# Second Quarter Earnings Call

## July 27, 2010



## **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.

# Second Quarter Results



# Select Financial Data - Second Quarter

(\$ in Millions, except per share amounts)

	2Q10	2Q09	2Q10 vs. 2Q09
<b>Sales</b>	<b>\$3,966</b>	<b>\$3,929</b>	<b>1%</b>
<b>Operating Margin</b>	<b>11.1%</b>	<b>10.6%</b>	<b>+50 bpts</b>
<b>Operating Income</b>	<b>\$442</b>	<b>\$417</b>	<b>6%</b>
<b>Net Interest Expense and Other Income</b>	<b>\$77</b>	<b>\$63</b>	<b>22%</b>
<b>Tax Rate</b>	<b>36.7%</b>	<b>35.9%</b>	<b>+80 bpts</b>
<b>Diluted Shares</b>	<b>116.5</b>	<b>117.2</b>	<b>-1%</b>
<b>Diluted Earnings Per Share (EPS)</b>	<b>\$1.95</b>	<b>\$1.90</b>	<b>3%</b>
<b>Net Cash from Operating Activities</b>	<b>\$318</b>	<b>\$376</b>	<b>-15%</b>
<b>Free Cash Flow</b>	<b>\$281</b>	<b>\$336</b>	<b>-16%</b>

Notes: (1) 2Q10 includes a debt retirement charge of \$13M (\$8M after tax, or \$0.07 per diluted share) on the redemption of the \$400M 6-1/8% senior subordinated notes due 2014 and incremental interest expense of \$3M (\$2M after tax, or \$0.02 per diluted share) relating to overlapping debt.

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



# Segment Results - Second Quarter

(\$ in Millions)

Segment	2Q10 Sales	Sales Growth vs. 2Q09	2Q10 Operating Margin	Margin Change vs. 2Q09 (bpts)
C <sup>3</sup> ISR	\$ 814	7%	12.5%	n.c.
Gov't Services	1,006	-4%	8.4%	-120
AM&M	760	9%	7.6%	+30
Electronic Systems	1,386	-2%	14.3%	+230
<b>Consolidated</b>	<b>\$ 3,966</b>	<b>1%</b>	<b>11.1%</b>	<b>+50</b>

Note: During 2Q10, the company made certain reclassifications between its Government Services and Electronic Systems reportable segments due to a re-alignment of a business unit in the company's management and organization structure. See Supplemental Segment Data slides for the previous 2Q09 segment data presentation, reclassifications to the respective segments and the revised segment data presentation.



# Actual Results - First Half



# Select Financial Data - First Half

(\$ in Millions, except per share amounts)

	<b>1H10 Actual</b>	<b>1H09 Actual</b>	<b>1H10 vs. 1H09</b>
<b>Sales</b>	<b>\$7,590</b>	<b>\$7,565</b>	<b>0%</b>
<b>Operating Margin</b>	<b>11.2%</b>	<b>10.5%</b>	<b>+70 bpts</b>
<b>Operating Income</b>	<b>\$852</b>	<b>\$793</b>	<b>7%</b>
<b>Net Interest Expense and Other Income</b>	<b>\$137</b>	<b>\$126</b>	<b>9%</b>
<b>Tax Rate</b>	<b>36.6%</b>	<b>35.8%</b>	<b>+80 bpts</b>
<b>Diluted Shares</b>	<b>116.7</b>	<b>118.0</b>	<b>-1%</b>
<b>Diluted Earnings Per Share (EPS)</b>	<b>\$3.82</b>	<b>\$3.56</b>	<b>7%</b>
<b>Net Cash from Operating Activities</b>	<b>\$589</b>	<b>\$528</b>	<b>12%</b>
<b>Free Cash Flow</b>	<b>\$526</b>	<b>\$448</b>	<b>17%</b>

Notes: (1) 1H10 includes a debt retirement charge of \$13M (\$8M after tax, or \$0.07 per diluted share) on the redemption of the \$400M 6-1/8% senior subordinated notes due 2014 and incremental interest expense of \$3M (\$2M after tax, or \$0.02 per diluted share) relating to overlapping debt.

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



# 1H10 Segment Results

(\$ in Millions)

Segment	1H10 Sales	Sales Growth vs. 1H09	1H10 Operating Margin	Margin Change vs. 1H09 (bpts)
C <sup>3</sup> ISR	\$ 1,602	9%	12.9%	+110
Gov't Services	1,934	-5%	8.3%	-100
AM&M	1,412	4%	8.3%	-30
Electronic Systems	2,642	-2%	13.9%	+230
<b>Consolidated</b>	<b>\$ 7,590</b>	<b>n.c.</b>	<b>11.2%</b>	<b>+70</b>

Note: During 2Q10, the company made certain reclassifications between its Government Services and Electronic Systems reportable segments due to a re-alignment of a business unit in the company's management and organization structure. See Supplemental Segment Data slides for the previous 1H09 segment data presentation, reclassifications to the respective segments and the revised segment data presentation.



# 2010 Financial Guidance





# 2010 Financial Guidance

(\$ in Billions, except per share amounts)

	<b>Current Guidance (Jul. 27, 2010)</b>	<b>Prior Guidance (Apr. 22, 2010)</b>
<b>Sales</b>	<b>\$16.0 to \$16.1</b>	<b>\$16.2 to \$16.3</b>
<b>Operating Margin</b>	<b>10.9%</b>	<b>10.8%</b>
<b>Tax Rate</b>	<b>36.1%</b>	<b>36.1%</b>
<b>Diluted EPS</b>	<b>\$8.05 to \$8.25</b>	<b>\$8.13 to \$8.33</b>
<b>Net Cash from Operating Activities</b>	<b>\$1.51</b>	<b>\$1.51</b>
<b>Less: CapEx, net of Dispositions</b>	<b>(\$0.25)</b>	<b>(\$0.25)</b>
<b>Free Cash Flow</b>	<b>\$1.26</b>	<b>\$1.26</b>

**Note:** Revised guidance includes (i) a debt retirement charge related to the early redemption of the company's aggregate \$800M 6-1/8% senior subordinated notes, (ii) the loss of the SOFSA contract and (iii) an increase in estimated operating margin for the C<sup>3</sup>ISR and Electronic Systems segments because of a more favorable product sales mix, partially offset by a \$100M decline in sales in the Electronic Systems segment.



# 2010 Segment Guidance

(\$ in Billions)

Segment	Sales	Midpoint Sales Growth vs. 2009	Operating Margin	Midpoint Margin Change vs. 2009 (bpts)
C <sup>3</sup> ISR	\$3.4 to \$3.5	11%	11.8% to 12.0%	+80
Gov't Services	\$4.0 to \$4.1	-1%	9.2% to 9.4%	-30
AM&M	\$2.7 to \$2.8	-3%	8.6% to 8.8%	+10
Electronic Systems	\$5.7 to \$5.8	3%	12.6% to 12.8%	+60
<b>Consolidated</b>	<b>\$16.0 to \$16.1</b>	<b>3%</b>	<b>10.9%</b>	<b>+30</b>

Note: AM&M segment includes the loss of the SOFSA contract.



# 2010 Segment Guidance - Current vs Prior

(\$ in Billions)

Segment	Current Guidance		Prior Guidance	
	Sales	Operating Margin	Sales	Operating Margin
C <sup>3</sup> ISR	\$3.4 to \$3.5	11.8% to 12.0%	\$3.4 to \$3.5	11.6% to 11.8%
Gov't Services	\$4.0 to \$4.1	9.2% to 9.4%	\$4.0 to \$4.1	9.2% to 9.4%
AM&M	\$2.7 to \$2.8	8.6% to 8.8%	\$2.9 to \$3.0	8.6% to 8.8%
Electronic Systems	\$5.7 to \$5.8	12.6% to 12.8%	\$5.8 to \$5.9	12.0% to 12.2%
<b>Consolidated</b>	<b>\$16.0 to \$16.1</b>	<b>10.9%</b>	<b>\$16.2 to \$16.3</b>	<b>10.8%</b>



# Free Cash Flow

(\$ in Millions)

	2Q10 Actual	2Q09 Actual	1H10 Actual	1H09 Actual	2010 Guidance	2009 Actual
Net income	\$ 231	\$ 227	\$ 453	\$ 428	\$ 965	\$ 911
Depreciation & amortization	52	54	108	107	240	218
Deferred taxes	36	15	65	29	95	74
Stock-based compensation	67	60	116	109	226	213
CODES non-cash interest	6	5	11	10	22	20
Amortization of pension and OPEB net losses	9	13	19	26	39	52
Working capital / other	(83)	2	(183)	(181)	(78)	(81)
Cash flow from operating activities	\$ 318	\$ 376	\$ 589	\$ 528	\$ 1,509	\$ 1,407
Capital expenditures, net	(37)	(40)	(63)	(80)	(249)	(182)
<b>Free cash flow</b>	<b>\$ 281</b>	<b>\$ 336</b>	<b>\$ 526</b>	<b>\$ 448</b>	<b>\$ 1,260</b>	<b>\$ 1,225</b>
<b>Supplemental Data:</b>						
Cash interest payments	\$ 73	\$ 64	\$ 130	\$ 123	\$ 235	\$ 237
Income tax payments, net	148	146	172	190	465	378
Pension expense	37	42	74	84	148	173
Pension contributions	40	22	44	25	140	67

Note: Income tax payments exclude savings from stock option compensation expense deductions classified as financing activities in accordance with SFAS 123R.



# Capitalization and Leverage

(\$ in Millions)

	<u>6/25/10 Pro Forma</u>	<u>6/25/10 Actual</u>	<u>12/31/09 Actual</u>
Cash	<u>\$ 608</u>	<u>\$ 1,023</u>	<u>\$ 1,016</u>
Debt	\$ 4,126	\$ 4,525	\$ 4,112
Equity	<u>6,923</u>	<u>6,926</u>	<u>6,660</u>
Book Capitalization	<u>\$ 11,049</u>	<u>\$ 11,451</u>	<u>\$ 10,772</u>

Debt/Book Capitalization	37.3%	39.5%	38.2%
Bank Leverage Ratio	1.9x	2.0x	1.9x
Available Revolver	\$ 967	\$ 967	\$ 968

- Notes: (1) Equity includes non-controlling interest of \$93M at both June 25, 2010 and December 31, 2009.  
 (2) 6/25/10 Pro Forma amounts reflect the redemption on July 15th of the \$400M 6-1/8% senior subordinated notes due 2013.



# Debt Balances and Maturities

(\$ in Millions)

	6/25/10 Pro Forma	Type	Maturity Date	Redemption	
				Date	Premium
<b>Senior:</b>					
Revolver	\$ -	L+300 bpts	10/12	n.a.	
5.2% Senior Notes	1,000	fixed	10/19	n.a.	
4.75% Senior Notes	800	fixed	7/20	n.a.	
<b>Subordinated:</b>					
5-7/8% Notes	\$ 650	fixed	1/15	1/10	2.938%
6-3/8% Notes	1,000	fixed	10/15	10/10	3.188%
3% CODES	700	fixed	8/35	2/11	0%
Unamortized Discounts	(24)				
<b>Total</b>	<b>\$ 4,126</b>				

Notes: (1) The contingent convertible notes (CODES) contain "puts" that holders can exercise on Feb 1, 2011, and every 5-year anniversary thereafter at a price of 100%.

(2) 6/25/10 Pro Forma amounts reflect the redemption on July 15th of the \$400M 6-1/8% senior subordinated notes due 2013.



# Forward Looking Statements

Certain of the matters discussed in these slides 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 that are difficult to predict, 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; 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; 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 market; global economic uncertainty; our ability to perform contracts on schedule; events beyond our control such as acts of terrorism; our international operations; our extensive use of fixed-price type contracts as compared to cost-reimbursable 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; results of audits by U.S. Government agencies; results of ongoing governmental investigations, including potential suspensions or debarments; anticipated cost savings from business acquisitions not fully realized or realized within the expected time frame; Titan’s compliance with its plea agreement and consent to entry of judgment with the U.S. Government relating to the Foreign Corrupt Practices Act (FCPA), including Titan’s ability to maintain its export licenses as well as the outcome of other FCPA matters; 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 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 Dec. 31, 2009 as well as any material updates to these factors in 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.



# Supplemental Segment Data

(\$ in Millions)

	Previous Presentation			Reclassification			Revised Presentation		
	2009	1H09	2Q09	2009	1H09	2Q09	2009	1H09	2Q09
<b>Sales:</b>									
C <sup>3</sup> ISR	\$ 3,095	\$ 1,471	\$ 761	\$ -	\$ -	\$ -	\$ 3,095	\$ 1,471	\$ 761
Gov't Services	4,155	2,074	1,069	(61)	(32)	(17)	4,094	2,042	1,052
AM&M	2,827	1,359	695	-	-	-	2,827	1,359	695
Electronic Systems	5,538	2,661	1,404	61	32	17	5,599	2,693	1,421
<b>Consolidated</b>	<b>\$ 15,615</b>	<b>\$ 7,565</b>	<b>\$ 3,929</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,615</b>	<b>\$ 7,565</b>	<b>\$ 3,929</b>

## Operating Margin:

C <sup>3</sup> ISR	11.1%	11.8%	12.5%	-	-	-	11.1%	11.8%	12.5%
Gov't Services	9.5%	9.2%	9.5%	0.1%	0.1%	0.1%	9.6%	9.3%	9.6%
AM&M	8.6%	8.6%	7.3%	-	-	-	8.6%	8.6%	7.3%
Electronic Systems	12.1%	11.7%	12.1%	-	-0.1%	-0.1%	12.1%	11.6%	12.0%
<b>Consolidated</b>	<b>10.6%</b>	<b>10.5%</b>	<b>10.6%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>10.6%</b>	<b>10.5%</b>	<b>10.6%</b>





# Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2010 Guidance</u>	<u>1H10 Actual</u>	<u>2Q10 Actual</u>	<u>2009 Actual</u>	<u>1H09 Actual</u>	<u>2Q09 Actual</u>
Net cash from operating activities	\$ 1,509	\$ 589	\$ 318	\$ 1,407	\$ 528	\$ 376
Less: Capital expenditures	(250)	(64)	(38)	(186)	(86)	(45)
Add: Dispositions of property, plant and equipment	1	1	1	4	6	5
Free cash flow	<u>\$ 1,260</u>	<u>\$ 526</u>	<u>\$ 281</u>	<u>\$ 1,225</u>	<u>\$ 448</u>	<u>\$ 336</u>



