

Second Quarter Earnings Call

July 25, 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 are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts, may be forward-looking statements, such as "may," "will," "should," "likely," "projects," "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions are used to identify forward-looking statements. The company cautions investors that these statements are subject to risks and uncertainties many of which are difficult to predict and generally beyond the company's control that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Some of the factors that could cause actual results to differ include, but are not limited to, the following: our dependence on the defense industry; backlog processing and program slips resulting from delayed funding of the Department of Defense (DoD) budget; the outcome of sequestration cuts to the defense budget and the apportionment of available funding between programs; our reliance on contracts with a limited number of customers and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding many of our contracts; our ability to retain our existing business and related contracts; our ability to successfully compete for and win new business; or, identify, acquire and integrate additional businesses; our ability to maintain and improve our operating margin; the availability of government funding 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 recruit, retain and train our employees; 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; global economic uncertainty; the DoD's in-sourcing and efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts on schedule; our international operations; our extensive use of fixed-price type contracts; the rapid change of technology and high level of competition 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 and of on-going governmental investigations; the impact on our business of improper conduct by our employees, agents or business partners; ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations; and the fair values of our assets.

Our forward-looking statements speak only as of the date of these slides or of the date they were made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, also see the information under the captions "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our most recent annual report on Form 10-K for the year ended December 31, 2012, and any material updates to these factors contained in any of our future filings.

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.



Second Quarter Results



Select Financial Data - - Second Quarter

(\$ in Millions, except per share amounts)

	2Q13 Actual	2Q12 Actual	vs. 2Q12
Sales	\$3,192	\$3,143	2%
Operating Margin	9.6%	10.5%	-90 bps
Operating Income	\$307	\$331	-7%
Interest Expense	\$44	\$45	-2%
Interest and Other Income, net	\$5	\$3	n.m.
Tax Rate	30.6%	33.9%	-330 bps
Diluted Shares	91.1	98.5	-8%
Diluted Earnings Per Share from Continuing Operations	\$2.03	\$1.94	5%
Net Cash from Operating Activities	\$250	\$217	15%
Free Cash Flow	\$197	\$177	11%

Notes: (1) The 2Q13 lower tax rate is primarily due to tax benefits in 2Q13 of: (1) \$6M primarily related to the reversal of amounts accrued for foreign taxes for years in which the statute of limitations expired and to the finalization of tax returns in certain foreign jurisdictions and (2) \$3M related to the U.S. Federal research and experimentation tax credit.

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

n.m. = not meaningful



Segment Results - - Second Quarter

(\$ in Millions)

<u>Segment</u>	<u>2Q13 Sales</u>	<u>Sales Growth vs. 2Q12</u>	<u>2Q13 Operating Margin</u>	<u>Margin Change vs. 2Q12 (bps)</u>
C ³ ISR	\$ 882	2%	7.8%	-220
Electronic Systems	1,357	0%	11.2%	-140
P&LS	620	5%	10.6%	+190
NSS	333	-1%	5.9%	-80
Consolidated	\$ 3,192	2%	9.6%	-90



First Half Results



Select Financial Data - - First Half

(\$ in Millions, except per share amounts)

	1H13 Actual	1H12 Actual	1H13 vs. 1H12
Sales	\$6,377	\$6,303	1%
Operating Margin	9.7%	10.4%	-70 bpts
Operating Income	\$620	\$656	-5%
Interest Expense	\$87	\$90	-3%
Interest and Other Income, net	\$8	\$6	n.m.
Tax Rate	29.8%	33.9%	-410 bpts
Diluted Shares	91.3	99.4	-8%
Diluted Earnings Per Share from Continuing Operations	\$4.14	\$3.79	9%
Net Cash from Operating Activities	\$396	\$337	18%
Free Cash Flow	\$295	\$278	6%

Notes: (1) The 1H13 lower tax rate is primarily due to tax benefits in 1H13 of: (1) \$15M related to the retroactive reinstatement in January 2013 of the U.S. Federal research and experimentation tax credit for all of 2012 and 2013, of which \$10M (\$0.11 per share) relates to the 2012 benefit and \$5M relates to the 1H13 benefit and (2) \$8M primarily related to the reversal of amounts accrued for foreign taxes for years in which the statute of limitations expired and to the finalization of tax returns in certain foreign jurisdictions.

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

n.m. = not meaningful



Segment Results - - First Half

(\$ in Millions)

Segment	1H13 Sales	Sales Growth vs. 1H12	1H13 Operating Margin	Margin Change vs. 1H12 (bps)
C ³ ISR	\$ 1,770	1%	9.1%	-110
Electronic Systems	2,707	2%	10.9%	-120
P&LS	1,237	3%	10.0%	+60
NSS	663	-3%	6.1%	n.c.
Consolidated	\$ 6,377	1%	9.7%	-70

n.c. = no change



2013 Financial Guidance



2013 Consolidated Financial Guidance

(in Millions, except per share amounts)

	Current Guidance	Prior Guidance (April 25, 2013)
Net Sales	\$12,500 to \$12,600	\$12,550 to \$12,750
Operating margin	9.8%	10.0%
Interest expense	\$176	\$176
Interest and other income	\$15	\$12
Effective tax rate	31.0%	32.0%
Diluted Shares	90.4	90.1
Diluted EPS	\$8.05 to \$8.15	\$8.15 to \$8.35
Free cash flow	\$1,010	\$1,030

Notes: (1) The revisions to our 2013 financial guidance (the “Current Guidance”) compared to our prior 2013 financial guidance issued on April 25, 2013 (the “Prior Guidance”) are primarily due to the anticipated reductions to our sales, operating margin and EPS for the DoD sequestration cuts. The Prior Guidance did not include any impact from sequestration, but we estimated at the time we issued such guidance that the sequestration cuts could reduce our 2013 guidance by up to \$500M for net sales, 30 bps for operating margin, \$0.65 for diluted EPS, and \$80M for free cash flow. The Current Guidance compared to the Prior Guidance includes decreases primarily related to sequestration in: (1) net sales of \$100M, (2) operating margin of 20 basis points and (3) diluted EPS of \$0.15. The Current Guidance includes a pre-tax expense of ~\$25M for severance charges, which represents an increase of \$21M (\$13M after income taxes, or \$0.15 per share) compared to the Prior Guidance primarily to resize businesses affected by the sequestration cuts.

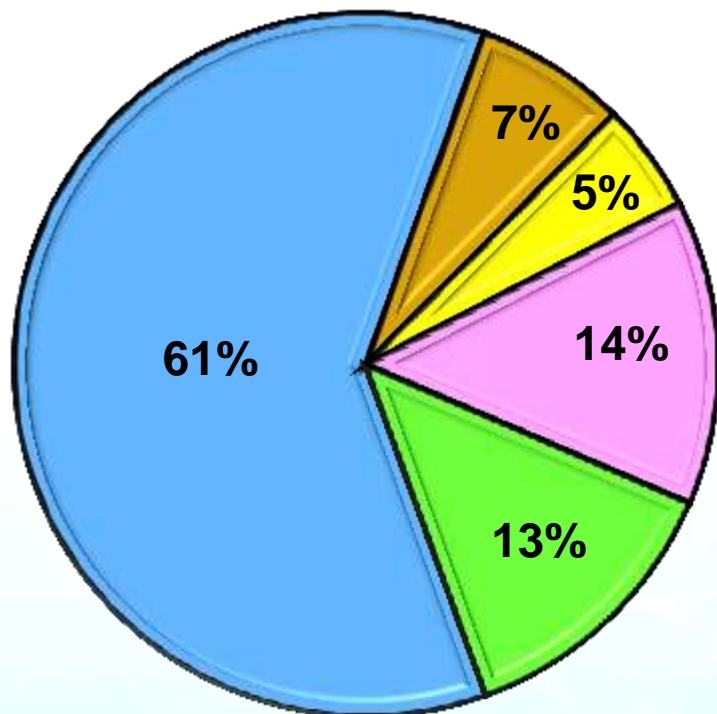
(2) The current guidance excludes any potential non-cash goodwill impairment charges that could result from additional DoD budget reductions in the future due to sequestration or other DoD budget cuts for which the information is presently not known.

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

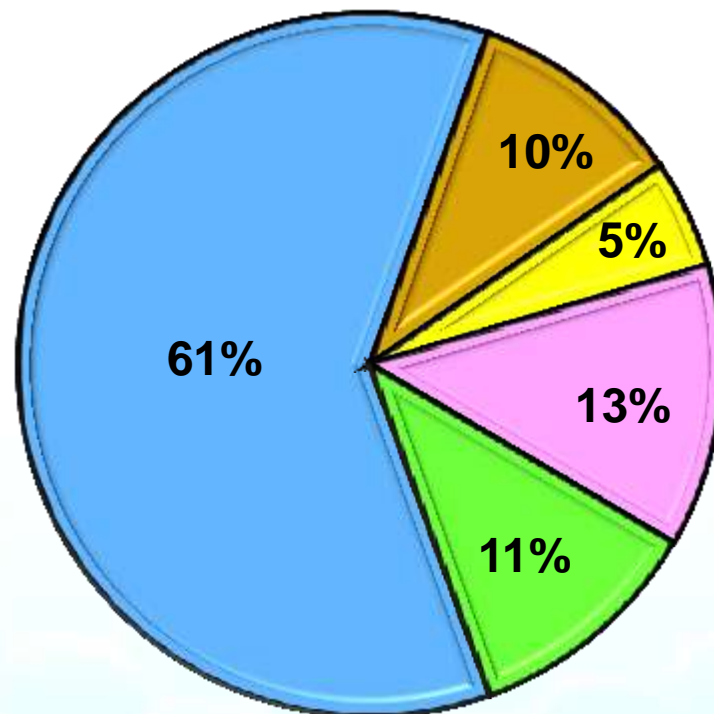


End Customer Sales Mix Trends

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 ⁽¹⁾	Midpoint Margin vs. 2012 (bps)	Higher Pension Margin Impact ⁽²⁾ (bps)
C ³ ISR	\$3,425 to \$3,475	-4%	9.5% to 9.7%	-50	-50
Elect Systems	\$5,425 to \$5,475	-4%	10.7% to 10.9%	-100	+10
P&LS	\$2,375 to \$2,425	-3%	9.2% to 9.4%	-20	n.c.
NSS	\$1,225 to \$1,275	-10%	6.8% to 7.0%	+120	n.c.
L-3 Consolidated	\$12,500 to \$12,600	-4.5%	9.8%	-50	-10

Notes: (1) Operating margin includes the \$21M increase in severance charges, compared to the prior segment guidance, which impacts the C³ISR segment by \$10M, the Electronic Systems segment by \$9M, and the P&LS and NSS segments by \$1M each.

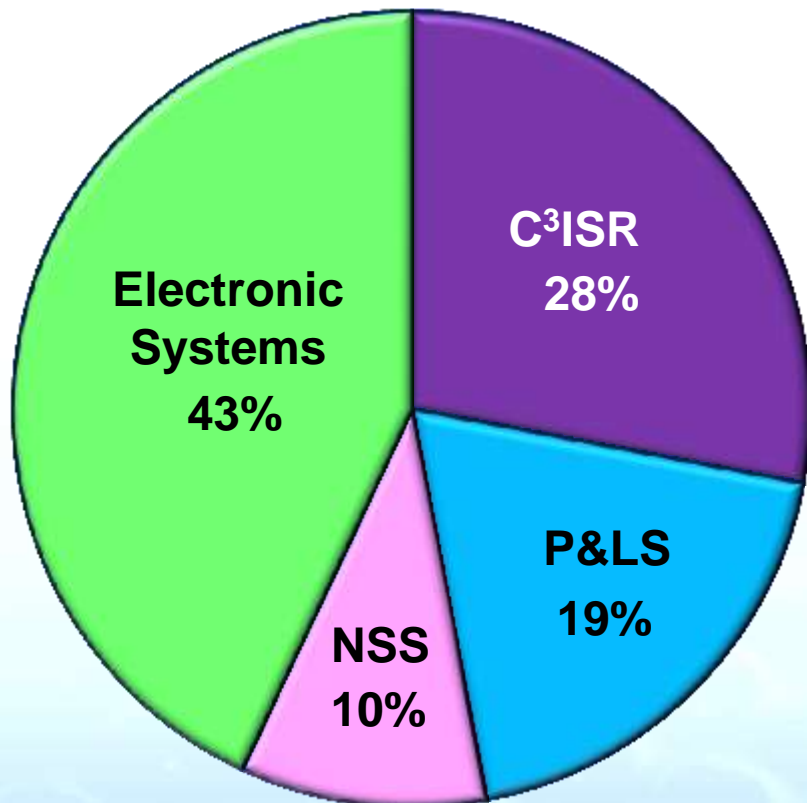
(2) Represents the reduction to 2013 operating margin caused by higher estimated pension expense (FAS net of CAS) of \$14M (\$17M higher for C³ISR, partially offset by a \$3M reduction for Electronic Systems).

n.c. = no change

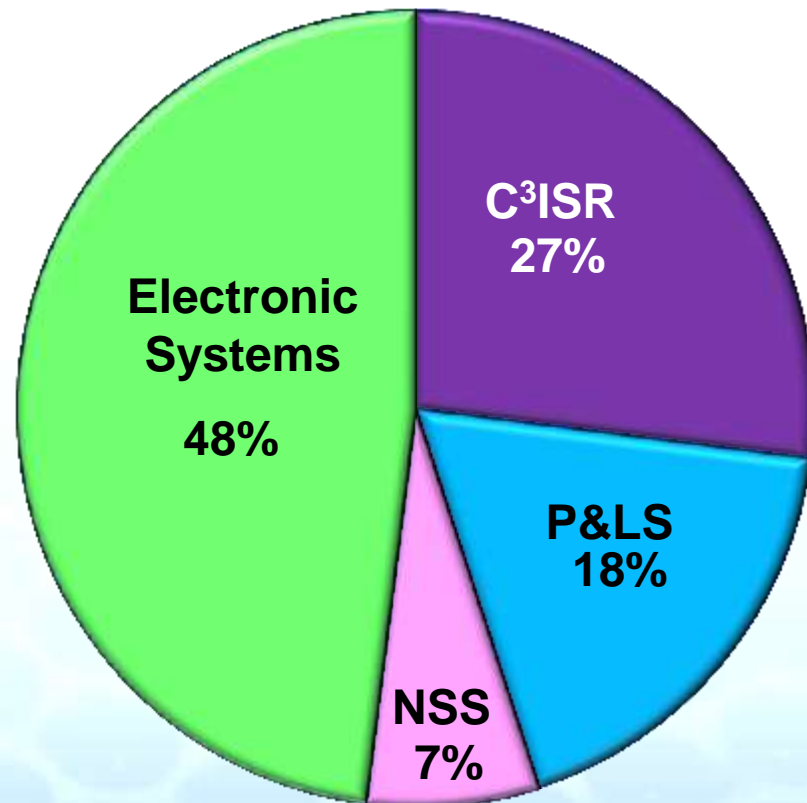


Segment Mix: 2013 Guidance Midpoints

Net Sales



Operating Income



Cash Flow Data



Cash Flow

(\$ in Millions)	2Q13 Actual	2Q12 Actual	1H13 Actual	1H12 Actual	2013 Guidance	2012 Actual
Net income from continuing operations	\$ 186	\$ 191	\$ 380	\$ 378	\$ 740	\$ 788
Depreciation & amortization	52	56	106	111	225	228
Deferred income taxes	(6)	15	13	35	60	112
401K common stock match	29	34	61	68	115	125
Stock-based employee compensation	14	16	28	29	55	59
Working Capital/Other Items	(25)	(95)	(192)	(284)	30	(81)
Capital expenditures, net	(53)	(48)	(101)	(75)	(215)	(205)
Income tax payments attributable to discontinued operations	-	8	-	16	-	24
Free cash flow	\$ 197	\$ 177	\$ 295	\$ 278	\$ 1,010	\$1,050



Supplemental Cash Flow Data

(\$ in Millions)

	<u>2Q13</u> <u>Actual</u>	<u>2Q12</u> <u>Actual</u>	<u>1H13</u> <u>Actual</u>	<u>1H12</u> <u>Actual</u>	<u>2013</u> <u>Guidance</u>	<u>2012</u> <u>Actual</u>
Cash interest payments	\$ 38	\$ 53	\$ 86	\$ 101	\$ 172	\$ 198
Income tax payments, net ⁽¹⁾	112	119	123	136	270	289
FAS pension expense	46	43	91	89	182 ^{(2) (3)}	179
CAS pension cost ⁽⁴⁾	29	31	57	63	115	126
Pension contributions	25	32	43	91	165	173

- (1) Income tax payments, net exclude payments attributable to discontinued operations of \$8M for 2Q12, \$16M for 1H12 and \$24M for 2012.
- (2) FAS pension expense represents pension expense determined using U.S. GAAP and assumes a 4.15% discount rate (vs. 5.02% for 2012) and a 2013 weighted average pension asset return of 8.12%.
- (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	2013				2012			
	D&A		CapEx, Net		D&A		CapEx, Net	
	2Q13	1H13	2Q13	1H13	2Q12	1H12	2Q12	1H12
C ³ ISR	\$ 10	\$ 21	\$ 18	\$ 37	\$ 12	\$ 23	\$ 18	\$ 25
Electronic Systems	35	71	27	46	35	71	25	42
P&LS	4	8	6	15	6	11	4	6
NSS	3	6	2	3	3	6	1	2
Consolidated	\$ 52	\$106	\$ 53	\$101	\$ 56	\$111	\$ 48	\$ 75

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)

	2Q13 Actual	2Q12 Actual	1H13 Actual	1H12 Actual	2013 Guidance	2012 Actual
Beginning cash	\$ 276	\$ 493	\$ 349	\$ 764	\$ 349	\$ 764
Free cash flow from continuing ops.	197	177	295	278	1,010	1,050
Cash flow from discontinued ops.	-	45	-	54	-	50
Engility spin dividend, gross	-	-	-	-	-	335
Acquisitions, net of divestitures	3	(11)	3	(216)	(10)	(343)
Dividends	(49)	(49)	(101)	(98)	(198)	(195)
Share repurchases	(126)	(177)	(248)	(315)	(500)	(872)
Debt repayments	-	-	-	-	(250)	(500)
Other, net	27	3	30	14	54	60
Ending cash	<u>\$ 328</u>	<u>\$ 481</u>	<u>\$ 328</u>	<u>\$ 481</u>	<u>\$ 455</u>	<u>\$ 349</u>

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



Capitalization and Leverage

(\$ in Millions)

	6/28/13 Actual	12/31/12 Actual
Cash	\$328	\$349
Debt	\$3,630	\$3,629
Equity	5,674	5,539
Invested Capital	\$9,304	\$9,168
Debt/Invested Capital	39.0%	39.6%
Bank Leverage Ratio	2.11x	2.04x
Available Revolver	\$1,000	\$1,000

Note: Equity includes non-controlling interests (minority interests) of \$74M as of June 28, 2013 and \$76M as of Dec 31, 2012.



Appendix



Debt Balances and Maturities

(\$ in Millions)

	6/28/13 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	(9)			
Total	\$ 3,630			

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 \$90.24.

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



Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2013 Guidance</u>	<u>1H13 Actual</u>	<u>2Q13 Actual</u>	<u>2012 Actual</u>	<u>1H12 Actual</u>	<u>2Q12 Actual</u>
Net cash from operating activities	\$ 1,225	\$ 396	\$ 250	\$1,231	\$ 337	\$ 217
Less: Capital expenditures	(225)	(110)	(61)	(210)	(76)	(49)
Add: Dispositions of property, plant and equipment	10	9	8	5	1	1
Income tax payments attributable to discontinued operations	-	-	-	24	16	8
Free cash flow	<u>\$ 1,010</u>	<u>\$ 295</u>	<u>\$ 197</u>	<u>\$1,050</u>	<u>\$ 278</u>	<u>\$ 177</u>



