

# *Third Quarter Earnings Call* *October 29, 2013*

## Financial Data Charts



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This presentation consists of L-3 Communications Corporation 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 this press release, 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; future U.S. government shutdowns or failure to raise the debt ceiling; 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 this press release or as 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.



# Third Quarter Results



# Select Financial Data - Third Quarter

(\$ in Millions, except per share amounts)

	3Q13	3Q12	vs. 3Q12
Sales	\$2,996	\$3,283	-9%
Operating Margin	10.5%	10.1%	+40 bps
Operating Income	\$314	\$331	-5%
Interest Expense	\$44	\$48	-8%
Interest and Other Income, Net	\$3	\$0	n.m.
Debt Retirement Charge	\$0	\$8	n.m.
Tax Rate	23.8%	29.1%	-530 bps
Diluted Shares	91.3	97.4	-6%
Diluted Earnings Per Share (EPS) from Continuing Operations	\$2.23	\$1.98	13%
Net Cash from Operating Activities	\$221	\$355	-38%
Free Cash Flow	\$185	\$320	-42%

Notes: (1) Diluted EPS from continuing operations included tax benefits of \$0.26 per diluted share in 3Q13 compared to tax benefits of \$0.11 per diluted share in 3Q12.

(2) The 3Q13 lower tax rate is primarily due to a \$14M tax benefit related to the U.S. Federal research and experimentation tax credit.

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



# Segment Results - Third Quarter

(\$ in Millions)

<u>Segment</u>	<u>3Q13 Sales</u>	<u>Sales Growth vs. 3Q12</u>	<u>3Q13 Operating Margin</u>	<u>Margin Change vs. 3Q12 (bps)</u>
C <sup>3</sup> ISR	\$ 750	-15%	8.4%	-210
Electronic Systems	1,333	-4%	13.0%	+170
P&LS	590	-9%	8.8%	-120
NSS	323	-8%	8.0%	+380
<b>Consolidated</b>	<b>\$ 2,996</b>	<b>-9%</b>	<b>10.5%</b>	<b>+40</b>

# Year to Date September Results



# Select Financial Data - Year to Date September

(\$ in Millions, except per share amounts)

	2013	2012	vs. 2012
Sales	\$9,373	\$9,586	-2%
Operating Margin	10.0%	10.3%	-30 bps
Operating Income	\$934	\$987	-5%
Interest Expense	\$131	\$138	-5%
Interest and Other Income, Net	\$11	\$6	n.m.
Debt Retirement Charge	\$0	\$8	n.m.
Tax Rate	27.8%	32.3%	-450 bps
Diluted Shares	91.3	98.7	-7%
Diluted EPS from Continuing Operations	\$6.37	\$5.78	10%
Net Cash from Operating Activities	\$617	\$692	-11%
Free Cash Flow	\$480	\$598	-20%

Notes: (1) Diluted EPS from continuing operations included tax benefits of \$0.42 per diluted share in 2013 compared to tax benefits of \$0.11 per diluted share in 2012.

(2) The 2013 lower tax rate is primarily due to a tax benefit of \$28M for the U.S. Federal research and experimentation tax credit, of which \$17M relates to 2012.

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



# Segment Results - Year to Date September

(\$ in Millions)

<u>Segment</u>	<u>2013 Sales</u>	<u>Sales Growth vs. 2012</u>	<u>2013 Operating Margin</u>	<u>Margin Change vs. 2012 (bps)</u>
C <sup>3</sup> ISR	\$ 2,521	-4%	8.9%	-140
Electronic Systems	4,040	0%	11.6%	-20
P&LS	1,827	-1%	9.6%	-10
NSS	985	-5%	6.7%	+130
<b>Consolidated</b>	<b>\$ 9,373</b>	<b>-2%</b>	<b>10.0%</b>	<b>-30</b>





# 2013 Financial Guidance



# 2013 Consolidated Financial Guidance

(in Millions, except per share amounts)

	<u>Current Guidance</u>	<u>Prior Guidance (July 25, 2013)</u>
<b>Net Sales</b>	<b>\$12,500 to \$12,600</b>	<b>\$12,500 to \$12,600</b>
<b>Operating margin</b>	<b>9.8%</b>	<b>9.8%</b>
<b>Interest expense</b>	<b>\$177</b>	<b>\$176</b>
<b>Interest and other income</b>	<b>\$15</b>	<b>\$15</b>
<b>Effective tax rate</b>	<b>28.9%</b>	<b>31.0%</b>
<b>Diluted Shares</b>	<b>90.8</b>	<b>90.4</b>
<b>Diluted EPS</b>	<b>\$8.25 to \$8.35</b>	<b>\$8.05 to \$8.15</b>
<b>Free cash flow</b>	<b>\$1,010</b>	<b>\$1,010</b>

- Notes: (1) The revisions to our 2013 financial guidance (the “Current Guidance”) compared to our prior 2013 financial guidance issued on July 25, 2013 (the “Prior Guidance”) are due to: (1) a reduction in the effective income tax rate and an increase in diluted share count, (2) a reduction in estimated sales and operating margin for the C<sup>3</sup>ISR segment caused by the impact of lower estimated productivity due to the implementation of new ERP systems in the third quarter, and (3) an increase in estimated sales and operating margin for the Electronic Systems and P&LS segments because of slightly higher sales volume and mix changes.
- (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.



# 2013 Segment Guidance

(\$ in Millions)

Segment	Net Sales	Midpoint Sales vs. 2012	Operating Margin	Midpoint Margin vs. 2012 (bps)	Higher Pension Margin Impact <sup>(1)</sup> (bps)
C <sup>3</sup> ISR	\$3,375 to \$3,425	-6%	8.8% to 9.0%	-120	-40
Elect Systems	\$5,450 to \$5,500	-4%	11.1% to 11.3%	-60	+10
P&LS	\$2,400 to \$2,450	-2%	9.3% to 9.5%	-10	n.c.
NSS	\$1,225 to \$1,275	-10%	6.8% to 7.0%	+120	-10
<b>L-3 Consolidated</b>	<b>\$12,500 to \$12,600</b>	<b>-4.5%</b>	<b>9.8%</b>	<b>-50</b>	<b>-10</b>

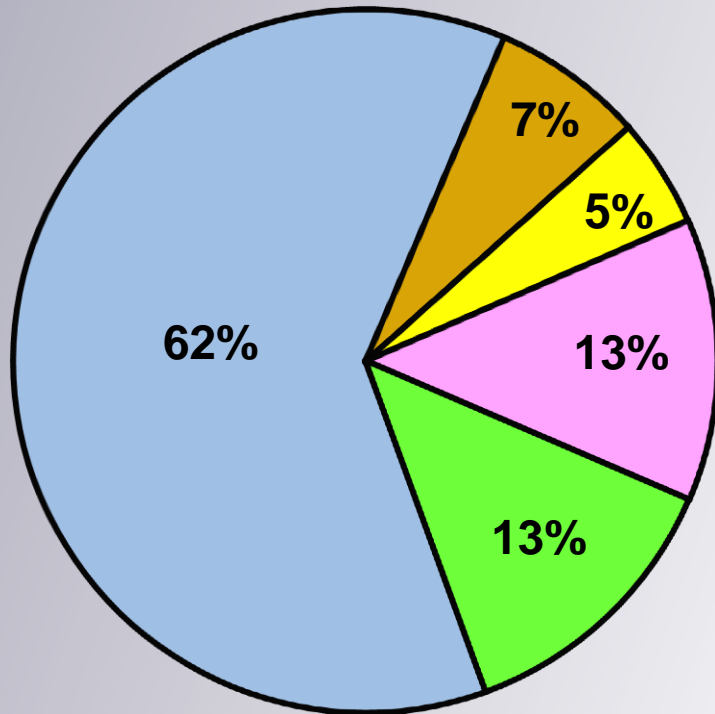
Notes: (1) Represents the reduction to 2013 operating margin caused by higher estimated pension expense (FAS net of CAS) of \$13M (\$15M higher for C<sup>3</sup>ISR and \$1M higher for NSS, partially offset by a \$3M reduction for Electronic Systems).

n.c. = no change

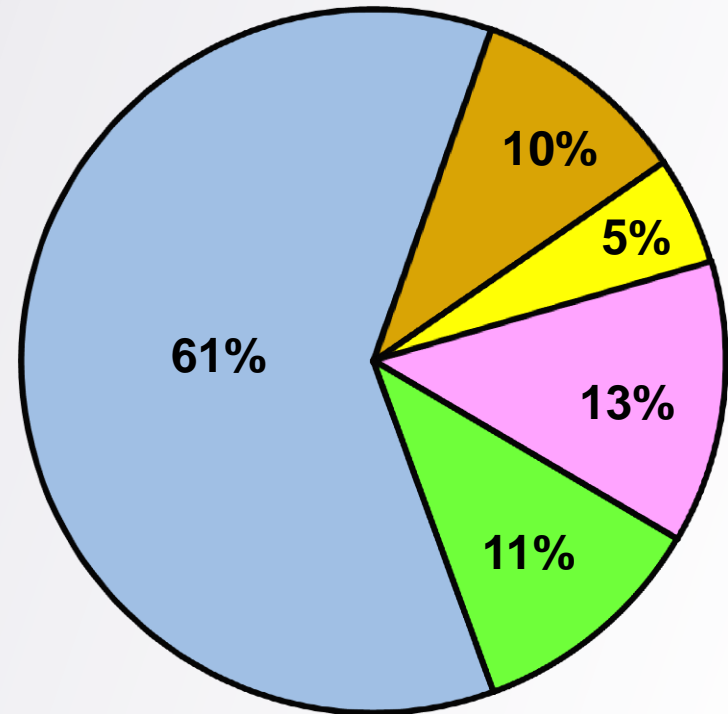


# End Customer Sales Mix Trends

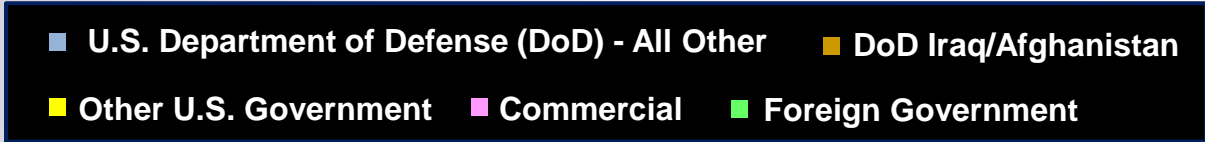
## 2013 Estimate



## 2012 Actual



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



# 2013 Segment Guidance - Current vs. Prior

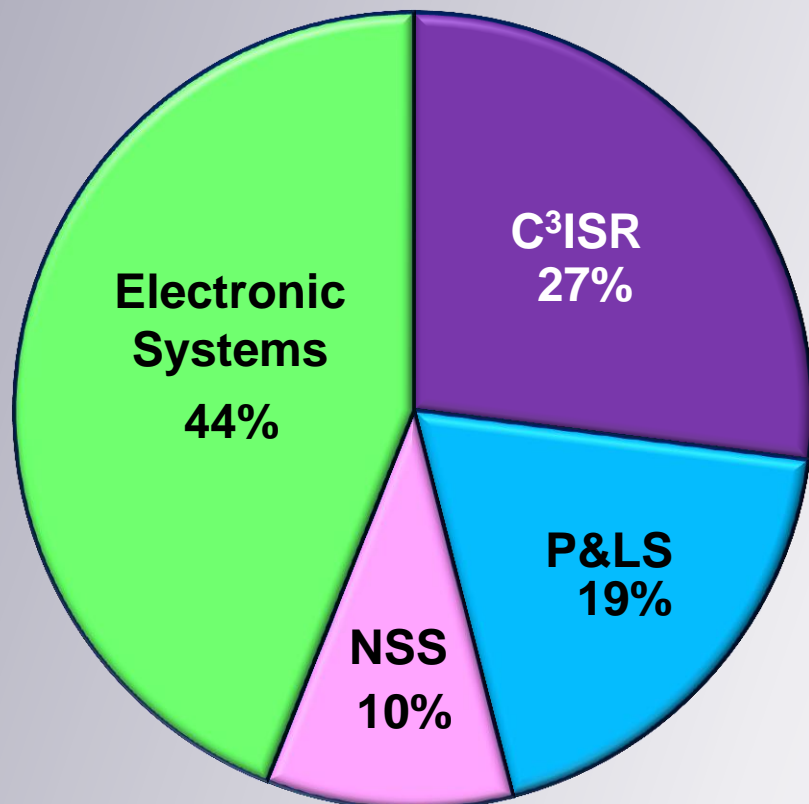
(\$ in Millions)

Segment	Current Guidance (Oct. 29, 2013)		Prior Guidance (July 25, 2013)	
	Sales	Operating Margin	Sales	Operating Margin
C <sup>3</sup> ISR	\$3,375 to \$3,425	8.8% to 9.0%	\$3,425 to \$3,475	9.5% to 9.7%
Electronic Systems	\$5,450 to \$5,500	11.1% to 11.3%	\$5,425 to \$5,475	10.7% to 10.9%
P&LS	\$2,400 to \$2,450	9.3% to 9.5%	\$2,375 to \$2,425	9.2% to 9.4%
NSS	\$1,225 to \$1,275	6.8% to 7.0%	\$1,225 to \$1,275	6.8% to 7.0%
<b>Consolidated</b>	<b>\$12,500 to \$12,600</b>	<b>9.8%</b>	<b>\$12,500 to \$12,600</b>	<b>9.8%</b>

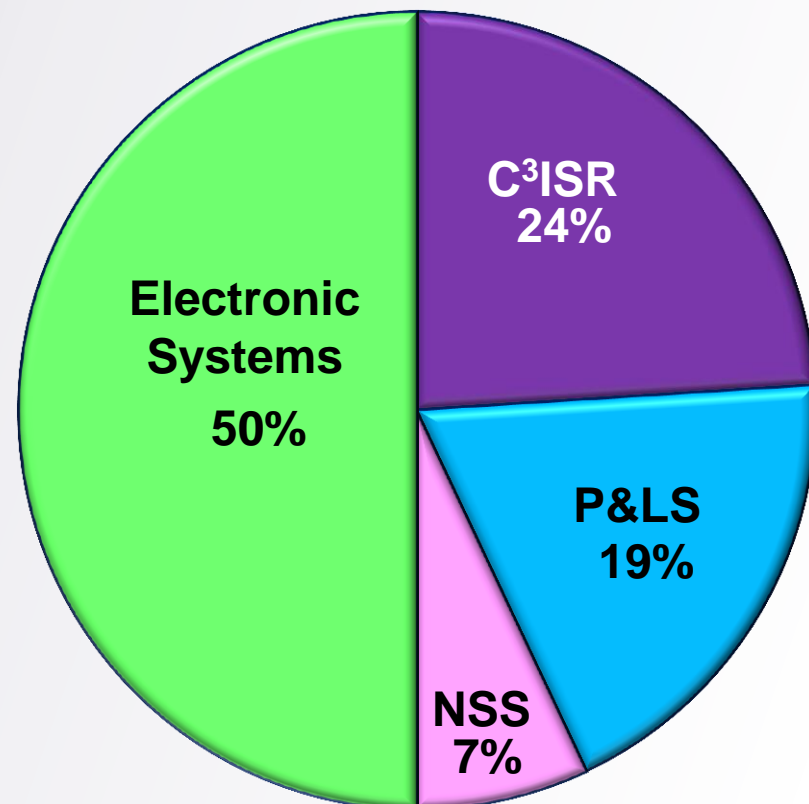


# Segment Mix: 2013 Guidance Midpoints

Net Sales



Operating Income



# Cash Flow Data



# Cash Flow

(\$ in Millions)

	<u>3Q13 Actual</u>	<u>3Q12 Actual</u>	<u>9M13 Actual</u>	<u>9M12 Actual</u>	<u>2013 Guidance</u>	<u>2012 Actual</u>
Net income from continuing ops	\$ 208	\$ 195	\$ 588	\$ 573	\$ 760	\$ 788
Depreciation & amortization	52	54	158	165	218	228
Deferred income taxes	32	15	45	50	67	112
401K common stock match	29	36	90	104	115	125
Stock-based employee comp	14	15	42	44	55	59
Working capital/other items	(114)	40	(306)	(244)	10	(81)
Capital expenditures, net	(36)	(43)	(137)	(118)	(215)	(205)
Income tax payments attributable to discontinued ops	-	8	-	24	-	24
Free cash flow	<u>\$ 185</u>	<u>\$ 320</u>	<u>\$ 480</u>	<u>\$ 598</u>	<u>\$ 1,010</u>	<u>\$ 1,050</u>





# Supplemental Cash Flow Data

(\$ in Millions)

	<u>3Q13</u> <u>Actual</u>	<u>3Q12</u> <u>Actual</u>	<u>9M13</u> <u>Actual</u>	<u>9M12</u> <u>Actual</u>	<u>2013</u> <u>Guidance</u>	<u>2012</u> <u>Actual</u>
Cash interest payments	\$ 47	\$ 51	\$ 133	\$ 152	\$ 170	\$ 198
Income tax payments, net <sup>(1)</sup>	28	72	151	208	225	289
FAS pension expense	45	45	136	134	180 <sup>(2) (3)</sup>	179
CAS pension cost <sup>(4)</sup>	29	32	86	95	114	126
Pension contributions	50	47	93	138	145	173

- (1) Income tax payments, net exclude payments attributable to discontinued operations of \$8M for 3Q12, \$24M for 9M12 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	
	3Q13	9M13	3Q13	9M13	3Q12	9M12	3Q12	9M12
C <sup>3</sup> ISR	\$ 12	\$ 33	\$ 9	\$ 46	\$ 11	\$ 34	\$ 20	\$ 45
Electronic Systems	34	105	21	67	34	105	19	61
P&LS	4	12	5	20	4	15	3	9
NSS	2	8	1	4	5	11	1	3
<b>Consolidated</b>	<b>\$ 52</b>	<b>\$158</b>	<b>\$ 36</b>	<b>\$137</b>	<b>\$ 54</b>	<b>\$165</b>	<b>\$ 43</b>	<b>\$118</b>

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)

	3Q13 Actual	3Q12 Actual	9M13 Actual	9M12 Actual	2013 Guidance	2012 Actual
Beginning cash	\$ 328	\$ 481	\$ 349	\$ 764	\$ 349	\$ 764
Free cash flow from continuing ops.	185	320	480	598	1,010	1,050
Cash flow from discontinued ops.	-	(4)	-	50	-	50
Engility spin dividend, gross	-	335	-	335	-	335
Acquisitions, net	(1)	(133)	2	(349)	(3)	(343)
Dividends	(50)	(51)	(151)	(149)	(200)	(195)
Share repurchases	(156)	(189)	(404)	(504)	(800)	(872)
Debt repayments	-	(250)	-	(250)	-	(500)
Other, net	71	5	101	19	114	60
Ending cash	<u>\$ 377</u>	<u>\$ 514</u>	<u>\$ 377</u>	<u>\$ 514</u>	<u>\$ 470</u>	<u>\$ 349</u>

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

# Capitalization and Leverage

(\$ in Millions)

	9/27/13 Actual	12/31/12 Actual
Cash	\$377	\$349
Debt	\$3,630	\$3,629
Equity	5,830	5,543
Invested Capital	\$9,460	\$9,172
Debt/Invested Capital	38.4%	39.6%
Bank Leverage Ratio	2.11x	2.04x
Available Revolver	\$1,000	\$1,000

Note: Equity includes non-controlling interests (minority interests) of \$75M as of September 27, 2013 and \$76M as of December 31, 2012.

# Appendix



# Debt Balances and Maturities

(\$ in Millions)

	<u>9/27/13 Actual</u>	<u>Type</u>	<u>Maturity Date</u>	<u>Redemption Premium</u>
<b><u>Senior:</u></b>				
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
<b><u>Subordinated:</u></b>				
3% CODES	689	fixed	8/1/35	0%
Unamortized Discounts	(9)			
<b>Total</b>	<b>\$ 3,630</b>			

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</u> <u>Guidance</u>	<u>9M13</u> <u>Actual</u>	<u>3Q13</u> <u>Actual</u>	<u>2012</u> <u>Actual</u>	<u>9M12</u> <u>Actual</u>	<u>3Q12</u> <u>Actual</u>
Net cash from operating activities	\$ 1,225	\$ 617	\$ 221	\$ 1,231	\$ 692	\$ 355
Less: Capital expenditures	(225)	(147)	(37)	(210)	(124)	(48)
Add: Dispositions of property, plant and equipment	10	10	1	5	6	5
Income tax payments attributable to discontinued operations	-	-	-	24	24	8
Free cash flow	<u>\$ 1,010</u>	<u>\$ 480</u>	<u>\$ 185</u>	<u>\$ 1,050</u>	<u>\$ 598</u>	<u>\$ 320</u>





