

Q408 Earnings Call

January 29, 2009



Supplemental Financial Data

2008 Financial Review



Q408 Select Financial Data

(\$ in millions, except per share amounts)

	Q408 Actual	Q407 Actual	Q408 vs Q407
Sales	\$4,011	\$3,806	5%
Operating Margin %	10.4%	10.4%	n.c.
Operating Income	\$416	\$396	5%
Interest Expense / Other	\$68	\$67	1%
Tax Rate	29.0%	37.0%	-800 bpts
Diluted Shares	120.7	126.9	-5%
Diluted EPS from Continuing Operations	\$2.04	\$1.63	25%
Free Cash Flow	\$287	\$285	1%

Notes: (1) Q408 excludes the business divestiture gain of \$33M (\$20M after taxes or \$0.17 per share).

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



Q408 Segment Actuals

(\$ in Millions)

<u>Segment</u>	<u>Sales</u>	<u>Sales Growth</u>	<u>Operating Margin</u>	<u>Margin Change (bpts)</u>
C ³ ISR	\$ 754	6%	8.3%	-300
Gov't Services	1,063	-5%	9.5%	+40
AM&M	718	14%	8.9%	+10
Spec Products	1,476	9%	12.7%	+100
Consolidated	\$4,011	5%	10.4%	n.c.



2008 Select Financial Data

(\$ in millions, except per share amounts)

	2008 Actual	2007 Actual	2008 vs 2007
Sales	\$14,901	\$13,961	7%
Operating Margin %	10.6%	10.4%	+20 bpts
Operating Income	\$1,575	\$1,448	9%
Interest Expense / Other	\$254	\$274	-7%
Tax Rate	34.7%	35.6%	-90 bpts
Diluted Shares	122.9	126.5	-3%
Diluted EPS	\$6.98	\$5.98	17%
Free Cash Flow	\$1,184	\$1,121	6%

Notes: (1) Excludes 2008 items comprised of (i) Q208 items that include a litigation gain of \$133M (\$0.66 per share) , a product line divestiture gain of \$12M (\$0.06 per share) and an impairment charge of \$28M (\$0.14 per share), and (ii) a Q408 gain of \$33M (\$0.16 per share) for the divestiture of a business on October 8, 2008.

(2) 2008 interest expense/other includes \$7M of accrued interest reversed as part of the Litigation Gain.

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



2008 Segment Actuals

(\$ in Millions)

<u>Segment</u>	<u>Sales</u>	<u>Sales Growth</u>	<u>Operating Margin</u>	<u>Margin Change (bpts)</u>
C ³ ISR	\$ 2,567	11%	9.8%	-20
Gov't Services	4,303	-1%	9.8%	+50
AM&M	2,657	5%	9.1%	-70
Spec Products	5,374	12%	12.3%	+50
Consolidated	\$ 14,901	7%	10.6%	+20

Notes: (1) Excludes Q208 items that include a litigation gain of \$126M, a product line divestiture gain of \$12M and an impairment charge of \$28M.

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



2009 Financial Guidance



2009 Financial Guidance

(\$ in Billions, except EPS amounts)

	2009 Current Guidance	2009 Prior Guidance
Sales	\$15.5 to \$15.7	\$15.4 to \$15.7
Operating Margin	10.4%	10.7%
Tax Rate	36.0%	36.0%
Diluted EPS	\$7.12 to \$7.32	\$7.30 to \$7.50
Net Cash from Operating Activities	\$1.4	\$1.4
Less: CapEx, net of Dispositions	(\$0.2)	(\$0.2)
Free Cash Flow	\$1.2	\$1.2



Diluted EPS Reconciliation

	2009 Guidance	2008 Actual	Change
GAAP EPS	\$7.12 to \$7.32	\$7.72	-8% to -5%
2008 Items		(0.74)	
New Accounting Rules		(0.13)	
Excluding: Higher 2009 Pension Expense	0.40		
Excluding: Higher 2009 Tax Rate	0.10		
Adjusted EPS	\$7.62 to \$7.82	\$6.85	11% to 14%

- Notes: (1) 2008 Items are comprised of (i) Q2 2008 Items that include a litigation gain of \$133M (\$0.66 per share), a product line divestiture gain of \$12M (\$0.06 per share) and an impairment charge of \$28M (\$0.14 per share), and (ii) a Q4 2008 gain of approximately \$33M (\$0.16 per share) for the divestiture of a business on October 8, 2008.
- (2) 2008 GAAP EPS will be restated effective January 1, 2009 for new accounting rules (FSP APB14-1 and FSP EITF 03-6-1). Impact on 2009 EPS is expected to be (\$0.14).



2009 Pension Expense Sensitivity

	Assumptions			Estimated '09 vs '08 Impact			
	'08 Asset Return	'09 Discount Rate	Additional '08 Funding	Pretax Income	Margin (bpts)	EPS	EPS Change
Initial 2009 Guidance	-23%	7.5%	\$100M	\$(35)M	-20	\$(0.19)	-2.8%
Current 2009 Guidance	-28%	6.5%	\$100M	\$(76)M	-50	\$(0.40)	-5.7%

- Initial 2009 Financial Guidance was provided at L-3's Investor Conference on Nov. 13, 2008
- Current 2009 Financial Guidance is based on 12/31/08 actual data



2009 Segment Guidance

(\$ in Billions)

Segment	Sales	Midpoint Sales Growth vs 2008	Operating Margin	Midpoint Margin Change vs 2008 (bpts)	Midpoint Margin Change Excluding Higher Pension Expense (bpts)
C ³ ISR	\$2.7 to \$2.8	7%	10.2% to 10.4%	+50	+160
Gov't Services	\$4.4 to \$4.5	4%	9.9% to 10.1%	+20	+20
AM&M	\$2.7 to \$2.8	4%	9.0% to 9.2%	n.c.	+20
Spec Products	\$5.7 to \$5.8	7%	11.4% to 11.6%	-80	n.c.
Consolidated	\$15.5 to \$15.7	5%	10.4%	-20	+30

Note: Margin Change excludes Q2 2008 Items (litigation gain of \$126M, a product line divestiture gain of \$12M and an impairment charge of \$28M).



Free Cash Flow

(\$ in Millions)

	2009 Guidance	2008 Actual
Net Income	\$ 869	\$ 949
Depreciation & Amortization	235	206
Deferred Taxes	100	171
Stock-Based Compensation	213	205
Divestiture Gains/Impairment Charge	-	(4)
CODES Noncash Interest	21	-
Working Capital/Other	(43)	(9)
OSI Litigation Accrual	-	(131)
Cash Flow from Operating Activities	\$ 1,395	\$ 1,387
Capital Expenditures, net	(195)	(203)
Free Cash Flow	\$ 1,200	\$ 1,184
Supplemental Data		
Income Tax Payments, net	\$ 380	\$ 344
Pension Contributions	65	162

Notes: (1) 2008 Deferred Taxes include increase of \$51M for Q2 2008 litigation gain and decrease of \$10M for Q2 2008 impairment charge.

(2) 2008 net income includes \$91M for the 2008 Items comprised of (i) \$71M for Q208 Items, and (ii) \$20M for a gain on the divestiture of a business.



Capitalization and Leverage

(\$ in Millions)

	12/31/08 Actual	12/31/07 Actual
Cash	\$ 867	\$ 780
Debt	\$ 4,538	\$ 4,537
Equity	5,919	6,076
Invested Capital	\$ 10,457	\$ 10,613
Debt/Book Capitalization	43.4%	42.7%
Bank Leverage Ratio	2.2x	2.3x
Available Revolver	\$ 940	\$ 794

Note: Equity includes minority interest of ~\$85M.

Debt Analysis

(\$ in Millions)

	<u>12/31/08</u> Actual	<u>Type</u>	<u>Maturity</u> Date	<u>Next</u> <u>Redemption</u>	
				<u>Date</u>	<u>Premium</u>
<u>Senior:</u>					
Revolver	\$ -	Variable ⁽¹⁾	3/10	n.a.	
Term Loans	650	Variable ⁽¹⁾	3/10	n.a.	
<u>Subordinated:</u>					
3% CODES	\$ 700	fixed	8/35	2/11 ⁽²⁾	0%
7-5/8% Notes	750	fixed	6/12	6/08	2.542%
6-1/8% Notes	400	fixed	7/13	7/08	3.063%
6-1/8% Notes	400	fixed	1/14	1/09	3.063%
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%
Unamortized Discounts	(12)				
Total	<u>\$ 4,538</u>				

Notes: (1) LIBOR +87.5 bpts.

(2) 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%.



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; global economic uncertainty and continued tightening of the credit markets; 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; 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 17 to our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended Dec. 31, 2007.

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.

Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions, except per share data)

	<u>2009 Guidance</u>	<u>2008 Actual</u>	<u>Q408 Actual</u>	<u>2007 Actual</u>	<u>Q407 Actual</u>
Operating Income		\$ 1,685			
Add: Impairment Charge		28			
Less: Litigation Gain		(126)			
Product Line Divestiture Gain		(12)			
Operating Income, Excluding Q208 Items		<u>\$ 1,575</u>			
Consolidated Operating Margin		11.3%			
Add: Impairment Charge		0.2%			
Less: Litigation Gain		-0.8%			
Product Line Divestiture Gain		-0.1%			
Consolidated Operating Margin, Excluding Items		<u>10.6%</u>			
Specialized Products Operating Margin		12.0%			
Add: Impairment Charge		0.5%			
Less: Product Line Divestiture Gain		-0.2%			
Specialized Products Operating Margin, Excluding Items		<u>12.3%</u>			
Diluted Earnings Per Share		\$ 7.72			
Add: Impairment Charge		0.14			
Less: Litigation Gain		(0.66)			
Product Line Divestiture Gain		(0.06)			
Business Divestiture Gain		(0.16)			
Diluted Earnings Per Share, Excluding Items		<u>\$ 6.98</u>			
Net cash from operating activities	\$ 1,395	\$ 1,387	\$ 356	\$ 1,270	\$ 335
Less: Capital expenditures	(205)	(218)	(79)	(157)	(56)
Add: Dispositions of property, plant and equipment	10	15	10	8	6
Free cash flow	<u>\$ 1,200</u>	<u>\$ 1,184</u>	<u>\$ 287</u>	<u>\$ 1,121</u>	<u>\$ 285</u>



