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LLL - L-3 Communications Holdings Inc at Credit Suisse Industrials Conference

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CORPORATE PARTICIPANTS

Michael Strianese *L-3 Communications Holdings, Inc. - Chairman and CEO*

Ralph D'Ambrosio *L-3 Communications Holdings - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Robert Spingarn *Credit Suisse - Analyst*

PRESENTATION

Robert Spingarn - *Credit Suisse - Analyst*

It is always a pleasure to welcome L-3 Communications to this conference. You guys have been with us, I think, for a good solid decade doing this, pretty good run for a company that's only twice that age and we really appreciate you being here.

So with that, I'd like to introduce L-3's Chairman and Chief Executive Officer, Michael Strianese; and Chief Financial Officer, Ralph D'Ambrosio. Mike is going to have a few slides and then we'll move into Q&A.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Okay. Thanks, Rob. Actually, I think we're going to be 15 depending on how you measure it, in another year or so, 15 since we've gone public or since we spun off from Lockheed Martin.

Robert Spingarn - *Credit Suisse - Analyst*

Was that 1997?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

We went public in 1998.

Robert Spingarn - *Credit Suisse - Analyst*

1998.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

You are right, now we are about [17], I am sorry. I need Ralph to do that math for, you remember our Anniversary party, but anyway thank you and welcome. I have a few charts to go through on the overview of L-3 and then we will be happy to do some Q&A, here is the standard forward-looking statement chart.

At a glance, as you know we have leading positions in select aerospace and defense markets, we're prime in ISR, aircraft sustainment, training, simulation, night vision, image intensifier tubes, to supplier of electronic and communication systems. Our strengths are broad and diverse technologies, a good portfolio of contracts, an efficient capital structure, investment-grade credit, a high earnings to cash conversion, in fact it's among the leaders in the industry in terms of our cash conversion.



Our objectives are to strengthen the portfolio, a lot has been said about portfolio shaping and we've been working on it extensively this year and we'll probably work on it most of next year. We're going to expand our operating margins through changing the portfolio to a portfolio that's more weighted towards electronic systems in those areas where we have good technical discriminators and barriers to entry and away from the more commodity service type contracts and we're looking forward to expanding our operating margins by changing the portfolio and returning to topline growth. So we have a favorable outlook in the US government markets. First of all, as everybody knows as geopolitical threats continue to escalate, the fiscal situation at home seems to be improving, we have a two-year budget deal, with growth resuming in fiscal 2016, sequester cuts are being reduced and budgets for 2016 and 2017 have been set with increased OCO fundings, notwithstanding that the better buying power and budget constraints do remain a concern for the industry.

There are market share opportunities especially in the US government classified space and in the well-discussed third offset strategy, which is returning to the technological discriminators that makes the US fighting force the best in the world. Some of these select awards that I'd like to mention are, one, in the classified space, we've been working more and more to get positioned as either a supplier or a prime, but we have won contracts for communication systems from multiple agencies valued at over \$260 million, the Gray Eagle program, which is an unmanned communication systems for almost \$100 million, Manned UnManned Teaming has been expanded into a program, that's known as MUUMT-X, and this is where you can team between the Apache helicopter and various UAVs, the system on the table allowed the teaming with one platform, we got out in front of it and introduced a system that will allow teaming with virtually all unmanned systems and easily won that program and we need to do more of that type of thought leadership where we introduce our own solutions based on where we see opportunities to grow.

EMARSS, which is an airborne surveillance systems on the King Air for the Army, the Geospatial version, we are putting enhanced sensors on for Constant Hawk and TACOP aircraft, it's about \$48 million; and Multi-Intelligence version, it's a prototype developed for an ISR aircraft, about \$32 million. This has been a program that's been around for a while, but has not really been able to deliver, so the customers came to L-3 on a sole source basis really asking us to pick this up and this is not very different than the project Liberty that we so successfully delivered several years ago.

And as well for the coastguard, we are modifying some C-130J aircraft for maritime patrol missions for about \$100 million. We're also doing work internationally in that area as well. Some of the opportunities we see globally, and first of all it's a large addressable market, we've been doing a lot more work in terms of marketing and selling efforts in getting products qualified for exports, which involve some work with Congress and the State Department and the DoD; but it's important for the industrial base to allow us to export where we can. Some of the key areas that we've been working on are ISR systems, simulators, communication systems, night vision systems and sensor products.

International business is always somewhat lumpy in that it's hard to predict the timing of contracts, the incubation period is always longer than in the US, but the margins are worth waiting for. Commercially there is favorable fundamentals, a lot of the drivers are in the aviation space where as you know, there are record setting deliveries of commercial airplanes especially in the Middle East and in Asia, and that drives our sales of our aviation products, our airport security-screening products and our training and simulation devices.

We had acquired earlier this year a company that specializes in training. As you know, we make the world's best simulator, I'd say, in the UK known as the Reality 7 system, but we've been finding more and more that the customers would rather not own the simulator and they would rather pay for trading by the hour. So we bought a company that does just that. Using our simulators, we can provide training by the hour to customers and it does quite better in a margin sense than just selling the simulator and gives us kind of a longer revenue stream; so that's an area that we've been focusing on. We have facilities up and running in Asia as well as in the UK and those simulators run roughly 24x7.

Some of the wins that we had internationally and commercially, well first of all, in Australia some very small aperture terminals or VSATs, where there is a pretty healthy demand, about \$100 million. The Japanese Coast Guard Surveillance aircraft, this is an area that's going to continue to grow. This is essentially installation of Mission Systems on BizJet, which has become the favorite solution globally or internationally, if you will, rather than using a large scale platform or something very small like a King Air, there's kind of in the middle; everybody wants a jet. So whether it's a Gulfstream or Falcon, the contracts have been geared towards putting state of the art sensors on commercial off-the-shelf BizJet platforms and that's something we excel at.

Hainan Airlines, we've sold trainers that's in China, full-flight simulators for the 787 and A320, that Reality 7 product that I mentioned can be reconfigured to handle virtually any commercial platform out of either Boeing or Airbus; so it is a very versatile product and, of course, the customer



has the ability to reconfigure it if they buy the follow-on kits that allow them to reconfigure to whatever platforms they own, and then the Canadian Navy's Arctic Patrol Cutter program is a growing program, given what's going on in the Arctic area, if you take a Google the Arctic Circle and what's going on, you'll notice there's some visitors up there, quite a lot of military equipment, and some oil well drilling equipment, native Canadians have been very concerned, and I expect more money getting poured into this area not only in Communication Systems, but I would also expect surveillance systems will be the next to follow and we're watching that carefully.

Our cash deployment continues strong, we're generating about \$850 million this year of free cash flow and that is the after about a \$260 million investment in our independent R&D. We've spent about \$321 million to date on acquisitions, and raised about \$305 million in proceeds from some of the divestitures we've done to date. We're using that primarily to repay debt, and maintain the investment grade rating. We paid dividends of \$214 million, we will pay by the end of the year, that's the 11th annual increase since we started our dividends and we'll continue to make that a priority to have the annual increase and will be repurchasing about \$740 million of L-3 stock.

This is the graphic depiction of the cash flow returned to shareholders both in the form of the dividend and the share repurchases and as a percent of our total cash flow over the last two years, we've exceeded 100%, it's 109% and this year we're expected to be - will be at about 112% of cash flow returned to shareholders between the dividend and the share repurchase, so we intend to be mindful about how we deal with our cash deployment.

This is the guidance that was put out on our third quarter call, we'll be speaking more about it next week at our Investor Day, or if you can, if you'd like you could Ralph questions following this presentation. The outlook for 2016 on this chart as well, and I won't read the whole chart, it will be, again, the subject of our Investor Day next week. But in summary, the budget looks like it's inflecting upward in 2016 and hopefully the light at the end of the tunnel is here in terms of the continued decreases that we've lived through over the last five or six years. We think affordable solutions and technologies aligned with customer priorities will rule the day and that's how we are focusing the Company, we're continuing to generate solid cash flow. We are very focused on margin expansion and topline growth and we are going to get there through portfolio shaping, there's been a lot of discussion on that. I'm sure I'll take some questions on it. And reshaping the portfolio will help us grow faster and return to higher margin markets where we are a leader. So with that, Rob, we can deal with the Q&A.

Robert Spingarn - *Credit Suisse - Analyst*

Great. Thank you, Mike. We'll get right into it. The stocks had a really nice move, a nice rebound and obviously we were all excited about the prospect [more]. And again apologies for essentially frontrunning (inaudible) the way the timing works out you guys -

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Not a problem.

Robert Spingarn - *Credit Suisse - Analyst*

But with all that's going on, you've solidified the strategy, but I wanted to talk a little bit about putting the strategy into practice. So in essence probing a little bit at some of the things you put up there on slides, how the execution, how the margins, how you deliver that margin expansion, some of that top line growth you attributed to portfolio shaping. I do think either I or somebody else will ask about what you'll - the divestiture process, but also the addition of things that you want to do at the high level?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Yes, well, as you said, we've been through a 10 to 15 year run depending on how you count, maybe it's [20], the Company grew rapidly over those years, and I don't think it was by design that we ended up having half the company in services or something, but that's where we ended up, and those have been some of the areas, especially the logistics area that grew rapidly because of Iraq and Afghanistan and that world is changing as

you know, and the Federal IT world is changing rapidly as well and that when we've discussed being in a process on and we've also said that we should have a signed deal by the end of the year and we're still on that page. We expect that to get signed up by the end of the year maybe a little sooner, but we feel good about that.

We continue to focus on the other service areas whether it would be logistics, or some of the other services are after-market services for our products that will probably stay, but it's areas that have been either hurt through the decline in the OCO account and changes in acquisition policy. So both the volume got hit as well as more frequent recompetes, in that business if you lose on a recompete, you lose your workforce, so you don't even have the ability to go out and chase new business, because they get re-badged to the new winner and then the better buying power hasn't been that user friendly to industry, if you will, especially where decisions are being made based on low price technically acceptable, it kind of takes the low barrier down even lower, if you will, to entry there and there's, of course, more price competition and as I've said many times, fixing aircraft and helicopters in theater for 5% is not a business we want to be in, we are doing something about it, we intend to move out of those areas and I don't think that that's a strategy that's going to take that long to execute, it will be most of next year probably, depending on which way we go sale versus spend and additions and how we build the company out will be in the electronic systems and the communications systems and ISR areas where we are world leaders, right, and we do a good job in terms of evolving our technology, it seems to be the way of the world and certainly with the Pentagon wanting to maintain the technological advantages we already have, this new challenges whether it's the area access, area denial, operating in a GPS constrained environment, more ISR, more self-protection systems, more electronic warfare, the cyber threat and everything else.

There is enough going on in the electronic space to keep it growing and healthy and I think we have enough content there although there's always things we could add, and I think with the portfolio moves alone the Company is over a 10% company. And then the companies we've been targeting to acquire bring it up even higher. Some of the acquisitions this year were well over 15% in terms of the margins that they got

Robert Spingarn - *Credit Suisse - Analyst*

In terms of the margin? So you know, it's funny and maybe I will turn this a little bit more into a fireside, a lot of times we start a Q&A, but this one I really feel like we can have a chat here. When I think about L-3 because I've watched you guys pretty much from the start.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Sure.

Robert Spingarn - *Credit Suisse - Analyst*

It really has been a tale of two decades, where it's completely different strategies in the first decade and the second decade. So like you said, it was a rapid growth acquisition driven business from the mid-90s whichever date we'll use up until the mid-2000s, then you had a big base of business and then over the last decade it's been you are winning programs and executing and so on. How do you see this next decade going, which company do you want to be?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Well, this is the right place to be depending on that time in history, sure I would, I don't know the one is right or wrong or better or worse, I could say what was more fun. But I think that the geopolitical world is certainly way more scary and it should be taken way more seriously. Many of you, I think, attended this conference out in Reagan Library a couple of weeks ago on the National Defense Forum, where half the Pentagon and a lot of the people from Congress and virtually all of industry and analyst community were there but I thought the theme really set it all, it was 'Peace Through Strength'.



I think it was a formula that we're trying to get back to as a nation and that people are starting to recognize that the stronger military does - just having it provides a deterrent effect and if you look at the mayhem going all around the globe, I think the value of a strong military is starting to get much more appreciated. They were willing to go back to some of the days of more growth in terms of the electronic systems and everything, so versus where we've been, which has been fighting in, there's Iraq and Afghanistan, much more rapid deployments, we need night vision, we need ISR, we need cameras, we need them tomorrow, we need - it's a completely different model, we are executing on this [start-up] strategy in maintaining the US's technological superiority. So we've got a long-term plan rather than fighting into theaters.

Robert Spingarn - *Credit Suisse - Analyst*

So when you think about position the company I am going to play off a question I asked Raytheon when Tom Kennedy was up here an hour ago or so and again I'll preface this by saying I sometimes think about the defense contractors in terms of some of their key core products and maybe it's not the right way to do it but I think about hopefully a Lockheed TAC Air, Boeing airlifts from TAC Air but with sun setting a bit. Northrop Bomber, we think, right, it's kind of a UAV, they kind of identify those guys. So I asked Tom how he sees Raytheon and he said, look we're platform agnostic and we tried to go on and bring up with you, and they are Tier 1 supplier, do you guys see yourselves similar to that and how can investors, how can the folks who are out there try and make a decision on what stock they want to own, how they can they think about the differences between you and another Tier 1, Tier 2 supplier?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Yes, well, our mission since the company was founded was to be a merchant supplier, that was the words that were used from day one, which meant we were able to sell through many channels whether it was directly to the US government or international customers, or commercial entities or to the primes on platforms and we have always been platform agnostic, with one exception, which was the C-27J program where we teamed with the Europeans, we had Alenia to deliver a short version of a C-130J I guess that was perceived to be needed for that last tactical mile and that's just wrapping up now but without exception, we have always been platform agnostic, if you will, and try to get the widest distribution of our products across all platforms. So whether the US is in a recapitalization mode like we are with the new tanker, a [PA-35], long-range strike, et cetera, we can get data links, we can get cameras, we can get encryption, we can get comm systems on those or if we are upgrading the existing fleet, we can do the same thing. So you know we can play in either environment, which is important for us to be able to.

So in addition, most of the allied countries want to be interoperable with the US capabilities, which is stimulating growth in those areas as well. We just completed delivering two Rivet Joint type aircraft Airseekers for the UK. The good news is that they were delivered almost six months early and worked out of the box and the bad news is we don't have [two more] for next year but we continue to be thought of as the leader in that area being able to get complex sensory systems built and fielded that work out of the box immediately and those are very, very much needed in today's environment.

So part of it is staying ahead of the technology and anticipating what's being needed, I made that example in the pitch about that MUMT being able to do the Manned UnManned Teaming, which is becoming very important, it gives more range to the helicopter uses, if you will, but in a system that was being deployed it was only good with one type of UAV where with our data link business we were able to come up with a multiple UAV system that was immediately adopted by the services and others

Makes more sense, we are going with the L-3 version, which you can dial in any UAV system, and I've been asking our people to be more thought leaders, if you will, in the world and look for those opportunities where we can fill a requirement better than anyone.

Robert Spingarn - *Credit Suisse - Analyst*

Just to make it, I guess, abundantly clear you see L-3 as the leader in data links, secure comms, what am I missing here?



Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

ISR integration, sensors, Rob, it's going back to the days when defense electronics was its own subset of this industry, a number of them, there was Loral, [Blyton] and a Westinghouse and all those are great companies that just focused on electronic systems, which were the bigger ticket item on a platform, it was the electronics that made them work. In the early days of L-3, I mean the big programs were the U2, which is still around not as big as it was the beginning or enabling B-52s to operate close to air support, why, because we're able to put technology on the weapon systems, GPS systems that made them precision strike from 48,000ft, it's just thinking out of the box a little more.

Robert Spingarn - Credit Suisse - Analyst

Now the services that you really have developed different types of services, you alluded to this before, over the years some were the services to support this hardware and others were pure services business, a good chunk of which went off with Engility. So is the idea now as we look at what you're doing and what some of your larger competitors are doing in the marketplace, we've got a lot going on, right, we've already seen a fair amount of activity. Is the idea that some services just don't work at the larger defense contractors with bigger overhead loads and that sort of thing and do you just end up with this low margin misaligned situation?

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

Well, let me play the following, I think the services work in any company in the growth environment we came out of, doesn't matter where you are because there is a huge demand. We were going into theaters at the same time and the military needed the equipment to be maintained and it needed the augmentation, right. There was a piece that was in the defense news within the last month or two, that talked about where does - not to advocate it, what would a war look like between the US and Russia, and why the US has advantages and the first advantage was it has a better force projection capability because of its logistics capability while that's what we were doing, and which we've done it for so long supporting force projection that it becomes very critical. However, it doesn't work very well when things are declining, it doesn't work very well on contracts are getting recompeted more often than necessary, meaning you're not on a five-year program anymore, it's a year or two, and it's very complicated putting people overseas, and staffing and the like, and then you really have earning margins that are well below what products are, so it becomes very difficult to keep it within a diversified defense company that has alternatives in higher margin areas.

You have more options and that would be option one. The other thing to say about it is, because I always get the question on the [Hill] sometimes why do they work in a private equity company? Well, because you can get a bigger return if you leverage, when I go through the model and buy a house with a mortgage, we are out of mortgage, the returns are higher, and people get it, but obviously if you leverage it more, you'll get a higher return on your investment rate, so that seems to be what's happening in this space. But it's very hard to get the 5% business that co-exists with 15% business, and explain why you are doing that, when you could put more in the 15% business and the fact that there is a pull-through there or natural synergy, the fact that there were no synergies but it is not compelling enough I think to.

Robert Spingarn - Credit Suisse - Analyst

So on the other side of the coin the addition, the M&A opportunity, the pipeline, how does that look to you?

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

Well, first everybody's out with the service businesses.

Robert Spingarn - Credit Suisse - Analyst

In the hardware and electronics areas that you are focusing on?



Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

We continually look at properties all year long, and we bought a couple of companies this year, the trading company that augments our simulator business, we bought a microwave company that was a tuck-in right with our microwave business in Long Island there that provides a amplifier capability that we didn't have and was directly margin accretive and profit accretive, we got rid of the facility and everything, we bought a company that has the image exploitation capability with the name ForceX recently and what's interesting there is it fits right within our EO IR systems, so we have a huge installed base that it makes it a smart system in terms of developing actionable intelligence out of the imagery, and everything else. So more things like that out there that we can add to our portfolio that enhance our offerings, which we have an installed base for, make a lot of sense for us and of course not overpaying makes the most sense; and we've been mindful of that.

Robert Spingarn - *Credit Suisse - Analyst*

You've been tough with the budget inflecting up and maybe people saying, well, wait a second, now we are in a different environment?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Well, in a sense, any company that's showing growth in high margins command a higher price. So, yeah, it's made it a little more difficult and we've been disciplined in that area and we're not known for stretching too far overpaying, and we know we need to earn economic returns to have it work. So we'll continue on that task.

Robert Spingarn - *Credit Suisse - Analyst*

Would you say that, back again updating us a little bit but it was really interesting thing to watch this company evolve from the beginning because it was such a fast grower. I think for a good period of that time, the organic growth, the top line was growing at [1.20%] a year and it was kind of half organic, half non-organic, maybe it wasn't exactly that way, the numbers aren't the same today. Once you get back to growth, and I'm going to ask you about your guidance in a minute that you've already provided. Is it fair to think that you can match on the non-organic side; the organic growth? Yeah, if we are talking about a 2%, 3% organic growth, you do something similar on the non-organic side.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Through acquisitions, yeah, I think because it's kind of an easier model than we looked through in the past where the numbers were (inaudible). I've been nostalgic too, trying to think of, gee, how are we getting a [percent] back then but it was part of when we were also a small company.

Ralph D'Ambrosio - *L-3 Communications Holdings - SVP & CFO*

And the budget was growing 9% a year for a decade, so it's not coincidental.

Robert Spingarn - *Credit Suisse - Analyst*

One of the things I wanted to ask you about, Ralph, and since in that context you've talked about negative growth in international next year, so this probably makes next year a trough year, I would imagine especially with the budget we have?

Ralph D'Ambrosio - *L-3 Communications Holdings - SVP & CFO*

Yes. You mean organic sales?



Robert Spingarn - *Credit Suisse - Analyst*

Organic sales, I think overall sales down 3% but there's some divestiture there, right, and then organics down 1.5%?

Ralph D'Ambrosio - *L-3 Communications Holdings - SVP & CFO*

Correct, 1.5%.

Robert Spingarn - *Credit Suisse - Analyst*

Right. So let's spend a minute on that, what's going on in international. Why is that going, some guys are bouncing back this year, it sounds like next year is your trough?

Ralph D'Ambrosio - *L-3 Communications Holdings - SVP & CFO*

Yes. So two things are impacting on our international sales in 2016, and we said we expect those to decline about 15% organically versus this year. So number one is, we have three ISR Systems contracts that are nearing completion. So those are taking a significant step down in sales of about \$150 million from this year to next year. And those are with three different long-term foreign government customers in ISR Systems business. We expect those to be good customers in the future, but they are on different procurement cycles. And so we have a trough in those sales next year.

And then secondly, Mike talked about one of the wins that we had in our international business this year, which was the VSAT or SATCOM terminals for Australia. That was a \$90 million contract that we booked in April of this year and we expect to ship almost all of it by end of this year within the next few weeks and while we expect follow-on business there, we don't expect the next order until the end of 2016 or early in 2017. So that's about \$80 million type reduction in our international sales. And those two items comprise the substantial majority of that 15% decline.

Robert Spingarn - *Credit Suisse - Analyst*

And I'm sure you'll get into this next week. But the presumption, I think, on our part is that next year given the budget is probably at the bottom is a tough year for L-3, is that fair?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

We have an election coming up somewhere in there but yeah I think it's, when you think about what happened in the UK now with their strategic review, interestingly after a long time of shrinking, they've got a robust increase and while I can't predict this, I can hope for that there will be a protracted peace time build-up or recapitalization of the US Armed Forces. And I think it's becoming apparent that it needs to get done, you hear every candidate out there making these comments about bringing the military back to its greatest. So it tells me that people realize that there's been a period of under investment, if you will, because a lot of money was being spent on the two conflicts overseas and the like, but there is a need, there is an occasion for improving the US arsenal, if you will, both from a technology standpoint, from a quantity standpoint, really, I mean we really do need to focus on the military as a country.

And I think that finally, I think we're getting the appetite perhaps for that and hopefully that will become a driver.

Robert Spingarn - *Credit Suisse - Analyst*

This brings up really, and what's interesting to me, a question on how we go about it. So, yes, the MoD is now doing what you're talking about, and they're going to raise spending, and you've certainly seen just based on recent tragic events, you've seen, there is a building focus on fighting

terrorism and all of this is going to come back, I think, to the industry and the question is are we going to recapitalize, as you're talking about in certain places, but our other reaction is going to be more of a homeland security terrorism driven, anti-terrorism effort, how does that impact L-3.

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

Well, I think that some of the solutions, I don't think anybody has the solution even though we all think about it every day is what would prevent these things, and look what we do, and obviously we got to point first to the intelligence apparatus, it would be more robust, which is everything surveillance, ISR, signals, you name it, those are all things that we do, and we do very, very well. The second would be specialized platforms, whether they are small aircraft (inaudible) the types of things we're seeing being done globally, where we're putting systems on BizJets things that kind of blend in better, that are more efficient to operate, that are more affordable to many countries is an area that we're focusing on and investing some of our own money to develop solutions that are fitting a large system and a small footprint that's what we're looking at, how you get very sophisticated radar systems to function in a small BizJet environment and the like, and again it's the nitrogen products are continually under evolution in terms of coming out with better systems that do better detection, and encryption, electronic warfare, but these are -

Robert Spingarn - Credit Suisse - Analyst

So you see yourselves involved either way and just again because you are platform agnostic in areas, but not on everything.

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

I can tell you that - we just said had this discussion with an airport security checkpoint wherever we are building a restaurant that isn't going to really do anything other than - we've gone through that exercise one year.

Robert Spingarn - Credit Suisse - Analyst

And I wanted to ask you a couple other questions, I don't see if anybody out there had a question but you talked about logistics in the various businesses you have, we've had some execution in Waco, some execution issues, is Waco a business that makes sense long-term or does it fit into this category?

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

It will be a under evaluation, but we had a bump start to the year with a head of state, we managed that program well, we are not expecting there to be any other hiccups, we were just there last week. I was personally very pleased with the progress that's been made. We have a completely new management team, including program managers and the like, that aircraft still has to get delivered (inaudible) and there's two more behind it, but I feel good enough that, I am going to sit here and say we're not expecting any more hiccups there, but they've got it, they've got their arms around everything and it looks better.

Robert Spingarn - Credit Suisse - Analyst

And the other two are similar aircrafts?

Michael Strianese - L-3 Communications Holdings, Inc. - Chairman and CEO

One's an identical aircraft, the other one is a little bit different, a wee bit fast but the actions that have been taken to address the dissimilarities, I've been satisfied with. More concerning to me though is when those [roll out] what we are going to do, we are not going to survive on - do we have a safe work in that facility, P3 is going away, because [P8s] are coming in and this is the discussion that we are going to have with our customer

and Waco has been a great resource for the Air Force, for the Navy, for the [Hain Linear] aircraft and we had serious conversation about putting more base in there or we are going to lose that industrial capacity, that's just the way it's going to be in the discussion, whether it's divested, consolidated with Greenville, we can't stay and hold it if it's not going to be viable, but we are aware of it.

Robert Spingarn - *Credit Suisse - Analyst*

Switching lanes slightly here but trying to sneak in a couple more things, you had some exciting news recently you've added Chris Kubasik to the team. I guess I don't even know if he is settled in and what the timing is, but maybe give us an update on where that stands? What the thesis behind it is? What Chris is going to be working on? What you're going to be working on? (inaudible)

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Sure. All right, just by way of history in case you probably didn't notice but Chris and I worked together at Ernst & Young at the beginning of our careers, I have acknowledged him, and know him for my whole professional life, we worked together at Lockheed Martin. In fact, he was at the other side of the table when we negotiated the sale of L-3, as he was working for the Lockheed team at Ernst, so he was working in New York at Seabury, he's done aerospace and defense consulting among other things and he visited and wanted to do some work for L-3 and we had this discussion and I told him what we were trying to accomplish and he said, gee, I'd love to help, and I said I'd love to have you.

You know Ralph and I can use help and another set of capable hands, because Ralph spends a lot of time with the financials and the investment community, I spend much of my time with customers and visiting locations. But having somebody that's completely focused on to the portfolio, making sure it happens, these are very time consuming processes, divesting and adding, acquiring, consolidating the margin expansion story and give that to Chris as an Operating Officer as his chief focus and he is more experienced you can't get it, he is one of the best people in the industry. I'm really happy with the team we put together by adding him and we're excited that we're going to really be able to get things to happen faster and that we're serious about it.

Robert Spingarn - *Credit Suisse - Analyst*

Is there going to be some more integration as part of the margin story?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Absolutely. Absolutely, I mean we are well aware of the numbers, like it's good to have you up here with the questions, if you know the history but yes, we are aware of the sales per employee number and the square footage, except, look we're put together by tons of acquisitions and some of them you can put together and some of them you can't because you lose all the people. Not everything fits together, you can't just shut everything down and move it into facility events, so there is other ways to economize if you will without losing the employees and the like and now people are our biggest asset, so we had been always mindful to not break the very thing that made the company good in the first place, and use our entrepreneurial spirit and people but we need to get a little better margin performance and financial performance, and we'll get there, but that is what we're looking at absolutely.

Robert Spingarn - *Credit Suisse - Analyst*

And I didn't manage the clock well here on this one like some football teams we know. But I want to see if there is a question out there before we break, anybody have something pressing they wanted to throw up here. Okay, we're good. With that Mike, I'm going to end it here. I really appreciate your coming down.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

Thanks for the invite.

Robert Spingarn - *Credit Suisse - Analyst*

With your event next week. I know you have a lot more to tell us then.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman and CEO*

We'll get Chris to pitch too. He is onboard, he is working and he is going to be talking next week.

Robert Spingarn - *Credit Suisse - Analyst*

We will look forward to that. So thank you very much, Ralph, Mike.

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