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CORPORATE PARTICIPANTS

Mike Strianese *L-3 Communications Holdings Inc. - Chairman & CEO*

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

Chris Kubasik *L-3 Communications Holdings Inc. - President & COO*

CONFERENCE CALL PARTICIPANTS

Cai von Rumohr *Cowen and Company - Analyst*

PRESENTATION

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. Thank you very much. We're going to move on with our next program. We're delighted to have with us and three communications, chairman and CEO Mike Strianese, COO Chris Kubasik, and Ralph D'Ambrosio, CFO. Mike, you are going to start out with a couple of comments.

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

Good morning. Thank you, Cai. Very pleased to be here. So I have about 10, 12 charts just as a refresher on L-3 and what we're up to. Hopefully, that will spur some conversation and plenty of Q&A.

Then I know, Cai, you have some one-on-ones set up, which really look like 10-on-ones so we brought heavy armor along with Chris, so there will be three of us to deal with today. It's more of a fair match up.

Here's the traditional forward-looking statement, which I don't have to read it to this audience.

At a glance, L-3, you know the Company well. We have leading positions in select aerospace and defense markets. We operate both as a prime and ISR systems aircraft sustainment, simulation and training, and night vision equipment, and as a supplier in electronic and communication system segments.

We have leading positions. We define our markets typically in electronics and communications. We've always strived to be number one or number two in anything we do and we have found that that is the best formula for success.

Our strengths, of course, are a broad and diverse portfolio of technologies, contracts, customers, and efficient capital structure that gives us flexibility in terms of our dividend, our share repurchase, acquisitions where appropriate. And we have high, if not leading, industry-leading earnings to cash flow conversion.

Our strategic objectives -- I think we've been pretty clear on what we're looking to do -- is: one, to strengthen the portfolio and that really got under way last year. Just yesterday we closed on the sale of our NSS business, the services business and there were a number of other transactions last year, as well as two or three very strategic acquisitions.

The goal, of course, is to expand our operating margins. There's been a lot to talk about in that area. And of course, return the Company to top-line growth that is very much aligned with the DoD budget.

The pie chart is our 2015 sales mix, which is a 70/30 DoD/US government versus commercial and international. The US government, our largest market, has a favorable outlook as you know from the budget. The geopolitical threats are ever-increasing no matter where you look.

The fiscal deficit situation is improving, so the government seems to have a little more flexibility, as evidenced by that bipartisan budget act where we did get a two-year deal at the end of last year, which is a nice change from the past, where we do have improved visibility from where we have come from over the last five years or so. And the OCO funding is even raised.

But the constraints haven't gone away. There's still caps and better buying power and other headwinds that the industry has. I think that over time the geopolitical environment and the desire to strengthen the military and the readiness will hopefully carry the day here.

When you listen to the candidates that are lining up for the election season, I've been happy to hear almost everyone talk about strengthening the military. Which is good, because at least they are recognizing there is a problem there in terms of for structure readiness, equipment, and the like. It's good that at least it's on the table.

And there's plenty of market share opportunities given what's going on, especially in the US government classified arena where we've had a lot of focus and we have taken a role as a prime on certain programs, which I'm very happy to see. There is a very attractive international and commercial market for us as well. It's a large market.

Increased marketing and selling efforts have been put in place and we will spend some more time either opening L-3 offices in key countries, hiring additional in-country marketing resources. But the key areas are ISR systems; simulators, which are addressing acute pilot shortage that we see developing; communications systems; night vision; and sensors.

Business lumpiness is expected in the international markets. All that means is it's a long sales cycle, longer than we're used to seeing on the US side, so the predictability is not what we're used to seeing on the US side. Things take longer to close and get signed up, but when they do it's usually worth the wait.

On the commercial side, there are favorable long-term fundamentals, particularly in the aviation products area. Security screening products and systems due to the buildout of airports globally and again, as I mentioned, the pilot shortage has been driving our training and simulation or pilot training business.

Our capital allocation has been very disciplined as far as we're concerned. First of all, we've been able to invest in our organic growth through IRAD and additional CapEx that is very much aligned with where the customers want to go. They've been very vocal in terms of the things that are required for the future threat environment.

Through our offset strategy and all the buzzwords that you've heard we've continued to return cash to shareholders. Goal is to keep our dividend in place and increasing every year and to continue to buy back our shares when attractive.

A lot of discussion about the investment-grade rating. Well, one of our goals is to maintain that rating and I'm happy to entertain a question on that if anybody would like to discuss it further. And of course, some strategic M&A to build out the portfolio.

The M&A that we have been pursuing has been in the $50 million to $100 million size, but with superior growth prospects and much higher margins than our averages are. Again, it should help both the goal to grow organically and to improve margins. That's a criteria for what we are focusing on in the M&A space right now, as well as technology fit and cultural fit.

This chart lays out the return of capital to shareholders over the last three years. As you can see, it has been the major use of our cash flow that we generate with over 100% of cash returned to shareholders in 2015 and 2014 as well. And 94% in 2013. Absent some significant M&A, which we are not planning on, we think this trend is going to be in place for the foreseeable future in terms of the amount of cash returned.

Portfolio shaping, we have been sharpening the Company's focus on things that we do very well. In the electronic systems space, ISR systems, and our communications systems business we have been repositioning capital, meaning we had some divestitures last year.

Not only services business, but also Marine Systems International business, which was not growing and the margins were much lower than we had aspired to generate; BSI, a business that really didn't fit well, which was known as broadcast sports; Tinsley; Klein; NSS. All low margin; lower margin, lower growth than what our goals are, so those were easy decisions.

And the companies that we acquired -- Miteq, CTC, ForceX, ATM -- all have higher margin and higher growth. And when I say higher margin, I mean substantially higher margin; 2 to 3 times what those businesses were running, sometimes even higher. So moving capital from the low growth, low margin to the high growth will have an impact on our composite results and this is the direction that we are going to take the Company.

Bottom line is we are striving to improve the top-line growth and the margin expansion profile.

This is a chart I borrowed from Ralph, but this is the 2016 consolidated guidance. You can see the organic growth. The real hit there is international and that, again, is a function of what I said about the lumpiness.

We completed a number of large contracts last year -- notably in the UK, the Airseeker program, which was a rivet joint, or the 27J program in Australia -- and have been a little slower than we would have liked replacing those programs. It's just the global budget environment isn't one where there's a lot of programs like that to replace. So we are making progress but not quite as quickly as we would like to get that international member back up to where it should be.

Segment operating margin looks like 9.8% that is in our guidance for 2016. That's 130 bps up from the prior year, which is a good start on our program to grow margins. Just under $1 billion of operating income, which is 11% growth versus 2015.

Earnings right now look like they should be up about 9%. Ralph will give you whatever details you'd like. And cash flow about $825 million. That's being driven by lower operating income, partially due to some of the divestitures and the like, but again the goal would be to get that back towards the $1 billion area.

In summary, the budget is growing in 2016. We're happy to see that and we are optimistic that the return to growth on the DoD side is here or almost here. We continue to focus on affordable solutions and technologies that are aligned with customer priorities.

Just last night we were -- there was an announcement from the DoD that we were awarded a contract for depot maintenance for the Super Hornet out of our Waco facility. Some of it may be done in Canada.

But, again, that is part of our story and we beat two OEM, much larger primes. Why? Because we do this better than anyone else can and at a better price.

We're going to be more aggressive in going after those types of opportunities where it doesn't matter what the size is, we have the solutions that really can win these programs. We can do it better, faster, and cheaper than the competition. It has always been our advantage and we're going to focus on it more.

We will be generating solid cash flow and again the focus will be on margin expansion, top-line growth, and the continued shaping of the portfolio. So with that, Cai, we're ready to take all your questions and I invite Chris and Ralph to please join me.

QUESTIONS AND ANSWERS

Cai von Rumohr - *Cowen and Company - Analyst*

I guess the first question is -- you guys probably listened to Ash's speech and he talked about all the needs and then basically at the end he said the number is flat. Any reaction to that? Is that --?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

You know, because the composite number is flat, but I'm sure there's peaks and valleys in particular areas. Notably the classified space, due to the threat environment, is growing at quite a healthy clip. Unfortunately, it's a convenient answer for us, but we really can't talk about a lot of what is in that space. Although I would tell you is geared towards the current threat environment and regaining the US technology edge, which has kind of eroded, as you know, over the past so many years.

So there's a lot to be done, a lot in terms of technology and this threat offset strategy, in dealing with all the problems the access area and denial issue and a bunch of things you read in the paper every day that need to be addressed.

Cai von Rumohr - *Cowen and Company - Analyst*

So you are saying that basically from what you know of the budget, it looks pretty good for L-3?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

We think that we have appropriate content from the areas where we see the growth, so --.

Cai von Rumohr - *Cowen and Company - Analyst*

One of the thoughts is that basically you would have to cut back on modernization to spend more on readiness, which is mostly the O&M account. You basically derive a lot of revenue from the O&M. Comment on that trade-off; what percent comes from O&M versus modernization? And would that be good?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

Let me let Ralph talk to the mix, but I think we are well positioned. Ralph, do you have the numbers (multiple speakers)?

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

In our DoD business, which is about 70% of our sales, about 60% of it is funded through the O&M account. That's because a lot of the -- even a lot of the equipment that we do on the sparing and repairing and sustainment side is funded through the O&M. So it's not all services that comes from that title account.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. You talked about the foreign business down 14%; I guess we know the items. Walk us through the potential that could give you an up year in 2017 and maybe you have this Gulfstream order, what, 93 million for Australia? How does that fit in there?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

Well, the trend, as I mentioned the other day, is to migrate some of these ISR platforms, some of the expensive platforms, to a biz jet environment, which takes a lot of work, as you can imagine, to get what used to fit on a 707 in a G550. So a lot of expertise.

Fortunately, that's something that we do well; probably the best in the world in that space and a lot of business that comes in to our Texas facilities has been sole sourced in the past. Why? Because we can get it done and we can get it done faster, better, cheaper than others. A lot of it is due to our dedicated workforce. It's just the know-how.

It's also a great pull-through story for us because we were able to at Liberty -- we've got 10 years worth of talking at Liberty, but great example of being able to take L-3 data links, L-3 sensors, antenna systems and pull then through and install them on a COTS platform that delivered a tremendous capability at a very attractive price. And I would like to see more international sales in that space.

We do have the SPYDR that we developed. It's an export version of that platform, but I also mentioned that the level of activity in the Mideast has slowed a little bit with oil. Some may agree, some may not; that's our experience with what we are seeing. Things that were once priorities are not tomorrow or it's taking a longer time to close.

The other thing I would mention is in terms of NATO and the threats in Western Europe, there's some recapitalization going on there and there's a strong desire to have those types of systems, where they're intelligence gathering, ISR type systems, be interoperable among NATO and among NATO in the US.

UK is already there with some of the platforms that they have invested in, but we are in more of a platform-centric budget right now in the US where we're tankers, [PAs], bomber, etc., so for us to keep up in that environment we need to get more content, which is one of the jobs I gave this guy who can comment on that.

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

I will just add my experience is, as you would expect, a lot of this international business is based on relationships. So the advantage of having an extra resource with Mike and I as we divvy up responsibilities, will allow either one of us, probably me, to do more of the international travel.

When I joined, I was pleased to get a lot of contacts from my former government and military leaders around the world. As Mike said, it's kind of the Mideast and Far East as you would expect opportunities. I think it was my second week on the job, Mike and I were over in the UK and Europe already. I kind of hit the ground running.

He alluded to it in his presentation. You've got to make the investment. You've got to open the offices, hire the people. There's probably three to five countries we're looking at. We'll talk to the Board next week.

But that's a $10 million investment; we kind of want to feather that in. We got to make the investment to get the business and we are trying to time all this stuff so we get a win-win scenario.

But as Mike said, I think it's a good opportunity. It is long cycle and I'll be jumping on the plane and bringing the team along and seeing what we can do.

Cai von Rumohr - *Cowen and Company - Analyst*

So I guess one of the issues is you have been here now for a little bit longer; you are mentioning a new initiative. You guys, now that you have had Chris to help you, what should we expect in terms of areas, things you are focusing on where you maybe haven't made the final decision? But things you think you might put a little more emphasis on and things you might put a little less on?

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

I will take the first shot at that, Mike, if that's okay. We talk about it. It's really -- the strategy, in my opinion, makes a lot of sense. I have known this company and known Mike for 30 years, and until you get on the inside you've kind of lost track that there were over 100 acquisitions in the last 15 years. So it's a little broader portfolio than you might have expected from the outside.

We really talked about accelerating. There's just a lot of things to do. So by me joining, I don't think there's any big strategic -- I can assure you there isn't any big strategic review or initiative.

What we want to do is finish up the portfolio shaping. We probably have two or three things that relatively small we will be selling in the next couple of months.

On the M&A side, that is working. The three of us just looked through some things Monday. I think we've got four or five we're looking at; maybe one or two close, you never know. But that process is working well and Mike has asked me to lead that. Obviously, working with Ralph, so that is moving along.

At the end of the day, it's going to be the new business. It's going to be the international focus, which we just talked about. It's going to be the classified that Mike has alluded to. We've got some good contacts and capabilities there.

With all the commercial aviation -- the last couple years I worked at a company that focused on commercial aviation, so that was a nice benefit. So I think I have the better appreciation for that line of business with some contacts that we are going to continue to focus on growing them.

And it's going to be the margin expansion. 130 basis points, I think, is pretty aggressive and nobody is doing that. That will be the obvious types of things we can talk about in more detail if you want, but --.

It's a unique company with a unique culture and entrepreneurial spirit. We are not trying to get carried away, but there's things we can do better, smarter, faster and the team has been very receptive.

I don't think we're going to put out any big press releases and stuff, but there's a ton of money to be saved in the IT organization just by simple -- it's going to be consolidate, automate, and execute. And whether that's people or facilities or systems, it's all kind of work. And then this stuff was in process and it's just going to be accelerated.

That's how we have talked about it. I don't know, Mike, if there's anything you want to add.

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

Chris has walked down that path already. We had a big consolidation of a big company back when, you recall, that [Loral] was acquired by [us].

Cai von Rumohr - *Cowen and Company - Analyst*

It sounds like there's a little bit of a shift, if I'm hearing it. At one point you were considering logistic solutions and platform systems, as this might be something, might be a portfolio-shaping candidate. And now you have the capital loss on NSS to sort of, Mike, facilitate doing that. So how do you think about that business in terms of your options?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

It's an interesting discussion we have been having internally. Everybody seems to be on the same page, which is good, although we welcome spirited debate also. But given some of the dynamics in the market after the first of the year, whether it's the credit market slippage and multiples aren't where we like them, we're not that anxious to give up $1.2 billion in sales at a cheap price. We will never be able to replace it.

Now, albeit that the margins are nowhere near where we need to be, that business does have some unique capability and it does play into readiness, the sustainment business. Should there be a deployment, that would be our growth driver, so having that not in the portfolio would not be great for the short term -- maybe not so short term -- margin fix.

We have heard from customers that would be disappointed if we exited the space, so we certainly need to find a very capable place for the business. Since we have done a great job for our customers. Our, quote, CPARS -- everybody knows what that means I guess -- our performance ratings have been outstanding. I think we went back and looked at them -- Chris went and looked at them just to confirm, but greens and blues. It looks outstanding.

Need to do a much better job on the contract terms and how margins are looked at or approached going into some of these contracts. We have had this discussion directly with our customers who understand it, because we say we cannot afford to stay in this business. We can't fix aircraft in-theater for 5%. We can't do it, so --. If we can improve that model, we will take another look at it.

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

Cai, I will just add in as we look in this business you have the LPTA that's been much discussed and you have the best value, and our focus going forward is going to be to bid the best value where the customer, as Mike said, appreciates the work that we do. And I think in a best-value scenario and you look at selection criteria, we're better, we're faster, we're cheaper. And that's the type of business that gets you better margins, better ROIC.

Those are the things we're going to bid. Not the LPTA where 20 guys show up and you are arguing over 2% versus 1.5% margins and there's no value to the customer and there's no core competency that we are taking advantage of. So we're going to shift to more best-value bids as our strategy.

Cai von Rumohr - *Cowen and Company - Analyst*

One of the issues, as I understand it, was having sufficient business to make Waco viable. Is the customer -- you mentioned getting this depot business. Is the customer basically doing things to help you there to allow you to stay in the business on a more attractive basis?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

We are having those discussions and I mentioned this win that was announced last night on the Super Hornet, which is (multiple speakers).

Cai von Rumohr - *Cowen and Company - Analyst*

How big is that?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

It's an IDIQ, so the initial buy should be in the $25 million area for I think four airplanes, but there's a big tail on it. This is the first, because we historically have not been the contractor on this work. But we did do a lot of significant overhaul in Canada on the A and B models. We're cutting the plane in half and replacing the center barrels, complete avionics. This is something that we have done and done well in Canada.

What we need in Waco with the elimination of P-3 work, which was the flywheel of Waco, we needed replacement platforms there. And this could be the first, because there's plenty of F-18s out there that would benefit from this work. So we need to perform and show the customer that we can deliver a superior value than what they are used to.

I have additional confidence in who we beat, who I won't name, but not afraid to tell you two large OEMs. You can figure it out. We were viewed as having the best value or -- I forget the criteria on that. It was a combination of probably technical and price and the like.

But we come out on top on a competition like that it gives me a lot of confidence in how the customer is viewing us and our people. I don't think it was simply to keep Waco afloat. It was -- they couldn't afford to do that anyway.

There's more like that on [the way].

Cai von Rumohr - *Cowen and Company - Analyst*

So you also mentioned readiness and I think your plan is that OCO work will be done on like 135 million. We had dinner the other night with [McKenzie Edleun] and Michael O'Hanlon, and they are saying that while the plan of record is to take the headcount down in Afghanistan, probably there is more resistance to maybe we ought to rethink that.

Any chance that your OCO number might be a little more conservative? And is this the bottom, do you think?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

That is so hard to speculate on. The trend seems to be to do a little more overseas, which would suggest what you are saying is true.

One of the rate capabilities that the United States enjoys that allows us to project our forces is we have a very mature logistics capability that others don't. It's very well-honed and keeping readiness in the 90%-plus neighborhood is something that we are no stranger to. So I don't know, Ralph, do you want to comment that (multiple speakers)?

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

Sure. We have been saying for several years now that we expected our Afghanistan revenues to bottom in 2016 at between $300 million and $400 million. We now expect that it's going to bottom at $400 million, and that is what is included in our 2016 sales guidance.

To your question, we certainly could have some upside in those OCO type activities. Yesterday when Secretary Carter outlined or previewed his budget for FY17, I think he said that there's going to be a considerable increase in funding to deal with ISIS or ISIL. Something about -- I think they said $3 billion or $4 billion more than what is presently.

That should be an item that should drive some upside, especially once we get into later parts of this year and into FY17. So we clearly think it's at a bottom in 2016.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. You've also indicated commercial 8% growth. How much of this is organic and what are the key drivers?

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

Let me take that one. It's 8% organic growth. The total growth is a little more than that because of some of the acquisitions we did last year and there are several moving parts to that 8% growth.

There's two items that offset each other. We talked about the slowdown in the satellite space, power device, TWTs, which are going to decline about $65 million or so in 2016 versus last year due to the slowdown in OEM orders. But that's going to be offset by higher head of state sales this year, so those two kind of cancel each other out.

What drives the 8% growth, ultimately, is additional simulation and training sales on the commercial civil side, additional sales of avionics, and it's going into the OEM forward fit side. We do see some decline in our aftermarket business and then we also see increases in our weapons site Warrior System type products that we sell into the commercial space as well as some growth in some other areas of the communication component market. So it's pretty balanced growth across our different commercial end-markets.

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

I will just say the commercial pilot shortage is a real issue for the airlines. The simulators that we rebuild and lease and utilize are quite unique and allow you to change with minimal investment to different configurations. Because in the old days you get a specific Boeing simulator versus an Airbus.

Now obviously, as you would expect, the actual infrastructure is the same and it's all controlled via software and such. I think it is later this month or this quarter, Mike, we are opening a facility in Bangkok, Thailand, another growth market for commercial aviation. I think we're putting four or six simulators there.

I was visiting the ones -- we were over the UK and these things are operating 24/7. We wanted to pop in and fly a plane, but we were booked solid so we couldn't even get in our own simulators.

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

We were expanding what's at Bangkok actually. That came along as the Link UK acquisition. The surprise here was last year when we bought CTC that it became apparent -- and I was surprised to learn that customers would rather pay for training by the hour, meaning airlines, than own the simulator. Part of the reason for that is not only the capital cost, but the fact that they use their own pilots as the trainers, where they would rather have them out flying passengers and generating revenue.

So while it does require some working capital on our part, I believe it's a very nice trade-off in terms of the margin returns, which are very, very significant. And I think you go search pilot shortage; I recall a number, won't be exactly, but 500,000, 300,000 pilots that are needed. Substantial, substantial.

We not only have the Thailand facility, but we have the Link UK facilities right on-site at Gatwick Airport. So we took a few machines and put them in a separate area and started kind of a small by-the-hour facility there. And like Chris just said, it's booked solid 24/7 by British Airways and Virgin Atlantic. They're constantly on the machines.

Cai von Rumohr - *Cowen and Company - Analyst*

Which brings me to the next question, you focus on areas of greater growth and higher margin. You can look at the services business, a lot of the guys that are in there say, hey, not much growth, not much margin, but zero capital requirement.

How do you -- do you have an ROIC bogey in terms of looking at a business? How do you basically get the return on capital factor into your thinking?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

We always look at the ROIC model before we go in on an acquisition. That's a discussion that we always have with our board; basically what is the cash-on-cash yield out of the gate? We have some very sophisticated people on the Board. But Chris is the ROIC guy, so I'm going to hand it off.

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

That's a great question. Clearly, we are not satisfied with the margin, so let me just state that. We are all focused to get those up, but I think somewhat implied in your question on the new business, whereas you are growing a company on the military side, you are going after generally some development contracts that are cost plus. Some of the readiness and sustainment stuff that we talked about are single digits.

But when the ROIC is incident or two weeks to send an invoice, that's an area that we've all agreed, even obviously before I got here, but we are really focused. We don't want to send the wrong message. We want to grow that $985 million of EBITDA to $1.1 billion and if it's at 9.8 or 9.6 or 10.1, the trend is to grow it. But we're not going to walk away from 7% business and 9% business with infinite ROIC, especially if it's the front end of an opportunity to get into production and then international.

I think a lot of people in this industry sometimes are just so focused on margin they are missing opportunities for longer-term growth. You know better than any of us, it's a long-cycle business. We're here for the long run. We're trying to do a good job in 2016, but we're looking at 2017, 2018, 2019.

We haven't talked about IRAD, but I can assure you the thing that -- one of the things that might have surprised me was how much we positively spend. It's $250 million, $260 million (inaudible), which is not --. We talked a lot about sustainment through a high-tech company that's got a lot of smart people and doing some pretty innovative stuff.

We are going to relook at it, but I think probably 90% of where we are spending our money is pretty much aligned with what Secretary Carter said in some of those areas of emphasis. So I was quite pleased to see that.

Again, the challenge which is tough on IRAD is can we accelerate this, start getting some new products to our customers in 2016 and 2017 versus sometimes takes a little longer? It's a nice IRAD portfolio and I think it's something we should be proud of.

Cai von Rumohr - *Cowen and Company - Analyst*

If you look at your history, your kind of culture really started out as a rollup of Tier 2 products. You did some services. I guess you decided that's not an area for you.

If I look at your last two acquisitions, last couple -- CTC, Miteq, and this latest one -- it seems like more of what you are buying is things that are fit in to things you already have. Going forward, is that going to be more of the focus?

And then if I look at some of your businesses like baggage check equipment, there are several suppliers. Is part of this going to be like I want to be the number one? There are like three or four guys that maybe competitively you want to buy someone to be bigger or how should we think about that?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

Work backwards, on the airport security. I would say that we have been confronted with that question for years about whether we should buy or --. And my view had been, our view collectively had been that the money would be better spent investing internally in additional technology in terms of the risk profile, etc.

Now I suspect that we earn some of the best margins in that space and we have among the best equipment in that space. We have virtually 100% market shares on the portal, if you will, the millimeter wave scanner that you walk through and the like. Both in Europe and in the United States, for varying reasons, it's machine of choice. We have the certified bomb detection machines that are reaching the end of their lives from when they were first put in to the airports post 9/11, so there will have to be a recapitalization at some point there.

The threats sure evolving and I think that we can fulfill the objective of being the best with some modest IRAD investment rather than buying the whole hog, if you will. It's something that we are not ruling out. We certainly looked at it all the time, but there's another way to do it, too, that could be lower risk and lower cost.

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

If we did 10-year observation the prior floors, right, we are looking for those that give us --.

Cai von Rumohr - *Cowen and Company - Analyst*

For the things that really fit with where you have (multiple speakers).

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

Supplement either the capabilities or -- exactly. CTC being a great example, as Mike just talked about.

Cai von Rumohr - *Cowen and Company - Analyst*

But are we going into a period -- I think once you said if you are buying as the market is going down, basically you better not be wrong. If you're buying when the water is rising, you basically have a little more leeway in terms of making a mistake.

Now that it looks like the water is at least stabilizing, are you going to be just strategically thinking a little bit more aggressively about doing more?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

We are always thinking strategically. Now aggressively is taking that leap, you mean, to billion-dollar plus size?

Cai von Rumohr - *Cowen and Company - Analyst*

Not in terms of size, but just the total quantity that you would do more deals. You haven't done -- the volume of deals has not been overwhelming, but just that you are seeing more stuff that you are interested in.

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

We are seeing more properties that we are interested in. ForceX was a small one last year, but just to give you an example of the thought process, this was a software-based product that worked with our turret or our EOIR sensors that are on virtually every manned and unmanned platform out there. So we already had an installed base ready for upgrade.

It looked like a very good model for us to bring to customers that onboard processing and solves a real problem they have in what do you do with all the data? How do you process it and get actionable intelligence quickly? So we're looking at things like that.

We're also looking at -- we are a merchant supplier, if you will, in a world that seems to have turned platform-centric. So besides being able to do teamings, more teamings with primes and OEMs -- and we've done a lot internationally in that world also -- is getting teams with the likes of Saab and Dassault. I don't want to go down the whole list -- I really shouldn't -- but we have been addressing it in that sense.

I don't think you can become a platform supplier overnight through M&A, but there are smaller type platform things that we can buy. Whether you think about -- I don't want to name them because I don't -- for competitive reasons. But there's other smaller, not a plane, a ship, or a tank, but there's some other things out there that fit well and give us a platform to put the payload.

Our focus has been on payloads, not platforms because that's what we do best and that's where we see the best value for us. We frequently are able to get on multiple platform teams because the platforms, the payloads are so good. That has been a good model for us.

But we recently became the prime on a payload on a classified program that's a very good accomplishment for us given who else was at the table and who we were able to be. Like even I -- wouldn't say I was surprised, but I was gratified to see that the technology at L-3 was beyond what anybody else had. Customer was surprised.

So I think a little bit of strategic M&A can give us some proprietary -- where we have the whole system would be good. It's strategic, larger. But again we are seeing more activity.

We just have to go sort through a lot of little companies and medium-sized companies and the like. We're not looking at public companies. We don't think the control premiums involved are -- Ralph tells me this all the time, they are not good deals.

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

Sure. If you pay a huge premium and it could eat all the return and we're not interested in that.

Chris Kubasik - *L-3 Communications Holdings Inc. - President & COO*

I was going to say, Cai, from the M&A side I think we're in a unique position. Maybe it is because we're in New York or maybe it's because we've done over 100 acquisitions, but I think people like dealing with us.

We can make quick decisions: yes, no. They bring us stuff and we've got a track record of being able to do a quick, efficient due diligence. Close the deal, whether it's buying or selling. We are quite proud of the NSS divestiture when you look at that environment.

I think there's lots of guys out there with criteria: we won't do this, we won't do that. We're open to anything. We don't have size limitations, so I think we are getting more volume and first looks at things than others because people want to move quickly and deal with a company that can make a decision and execute. I think that will play to our advantage and with an additional resource, being me, it's just someone that can help accelerate this stuff even quicker.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. Mike, in conclusion, as you look 2016, I mean OCO might be a little bit better. What are the key risks and opportunities?

Mike Strianese - *L-3 Communications Holdings Inc. - Chairman & CEO*

Well, a risk that bothers me is that the platforms, whether it's tankers, P8s, bombers, subs, suck up a lot of the modernization money where it would usually fall on our side of the line and drive our product sales and the like that the balance is kept.

And opportunities will be re-capitalization of platforms where we have the expertise to move from a large format with -- what is in the press all the time? The JSTARS one is in the press going from that to a 550; that's why the 550 credentials that we are developing through the work in Australia and there's a number of others that aren't talked about, I believe give us a leg up in that space.

That we will be able to say, listen, we've done it; we've done it three or four times. We know it inside out. That would be an upside. Just because of the cost model there would be more trending that way.

Cai von Rumohr - *Cowen and Company - Analyst*

Thank you very much. That was terrific.
