

First Quarter Earnings Call

April 25, 2013



Financial Data Charts

This presentation consists of L-3 general capabilities and administrative information that does not contain controlled technical data as defined within the International Traffic in Arms (ITAR) Part 120.10 or Export Administration Regulations (EAR) Part 734.7-11.

Forward Looking Statements

Certain of the matters discussed in these slides, including information regarding the company's 2013 financial outlook are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts, may be forward-looking statements, such as "may," "will," "should," "likely," "projects," "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions are used to identify forward-looking statements. The company cautions investors that these statements are subject to risks and uncertainties many of which are difficult to predict and generally beyond the company's control that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Some of the factors that could cause actual results to differ include, but are not limited to, the following: our dependence on the defense industry; backlog processing and program slips resulting from delayed funding of the Department of Defense (DoD) budget; our reliance on contracts with a limited number of customers and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding many of our contracts; our ability to retain our existing business and related contracts; our ability to successfully compete for and win new business; or, identify, acquire and integrate additional businesses; our ability to maintain and improve our operating margin; the availability of government funding and changes in customer requirements for our products and services; our significant amount of debt and the restrictions contained in our debt agreements; our ability to continue to recruit, retain and train our employees; actual future interest rates, volatility and other assumptions used in the determination of pension benefits and equity based compensation, as well as the market performance of benefit plan assets; our collective bargaining agreements, our ability to successfully negotiate contracts with labor unions and our ability to favorably resolve labor disputes should they arise; the business, economic and political conditions in the markets in which we operate; global economic uncertainty; the DoD's in-sourcing and efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts on schedule; our international operations; our extensive use of fixed-price type contracts; the rapid change of technology and high level of competition in which our businesses participate; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the outcome of litigation matters; results of audits by U.S. Government agencies and of on-going governmental investigations; the impact on our business of improper conduct by our employees, agents or business partners; ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations; and the fair values of our assets.

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

As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Given these uncertainties, you should not place any reliance on these forward-looking statements.



First Quarter Results



Select Financial Data - First Quarter

(\$ in Millions, except per share amounts)

	<u>1Q13</u>	<u>1Q12</u>	<u>vs. 1Q12</u>
Sales	\$3,185	\$3,160	1%
Operating Margin	9.8%	10.3%	-50 bps
Operating Income	\$313	\$325	-4%
Interest Expense	\$43	\$45	n.m.
Interest and Other Income	\$3	\$3	n.m.
Tax Rate	28.9%	33.9%	-500 bps
Diluted Shares	91.5	100.2	-9%
Diluted Earnings Per Share from Continuing Operations	\$2.11	\$1.86	13%
Net Cash from Operating Activities	\$146	\$120	22%
Free Cash Flow	\$98	\$101	-3%

Notes: (1) 1Q13 includes a \$12M tax benefit for the retroactive reinstatement of the U.S. Federal research and experimentation tax credit for all of 2012 and 2013, of which \$10M (\$0.11 per share) relates to the 2012 benefit.

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

n.m. = not meaningful



Segment Results - First Quarter

(\$ in Millions)

<u>Segment</u>	<u>1Q13 Sales</u>	<u>Sales Growth vs. 1Q12</u>	<u>1Q13 Operating Margin</u>	<u>Margin Change vs. 1Q12 (bps)</u>
C ³ ISR	\$ 888	0%	10.3%	-20
Electronic Systems	1,350	3%	10.6%	-90
P&LS	617	0%	9.3%	-80
NSS	330	-5%	6.2%	+80
Consolidated	\$ 3,185	0.8%	9.8%	-50

Note: The Aircraft Modernization & Maintenance (AM&M) segment was renamed Platform & Logistics Solutions (P&LS).



2013 Financial Guidance



2013 Consolidated Financial Guidance

(in Millions, except per share amounts)

	<u>Current Guidance</u>	<u>Midpoint vs. 2012</u>
Net Sales	\$12,550 to \$12,750	-4%
Operating margin	10.0%	-30 bps
Interest expense	\$176	-4%
Interest and other income	\$12	n.m.
Debt retirement charges	\$0	-\$13
Tax rate	32.0%	-20 bps
Diluted Shares	90.1	-8%
Diluted EPS	\$8.15 to \$8.35	3%
Free cash flow	\$1,030	-2%

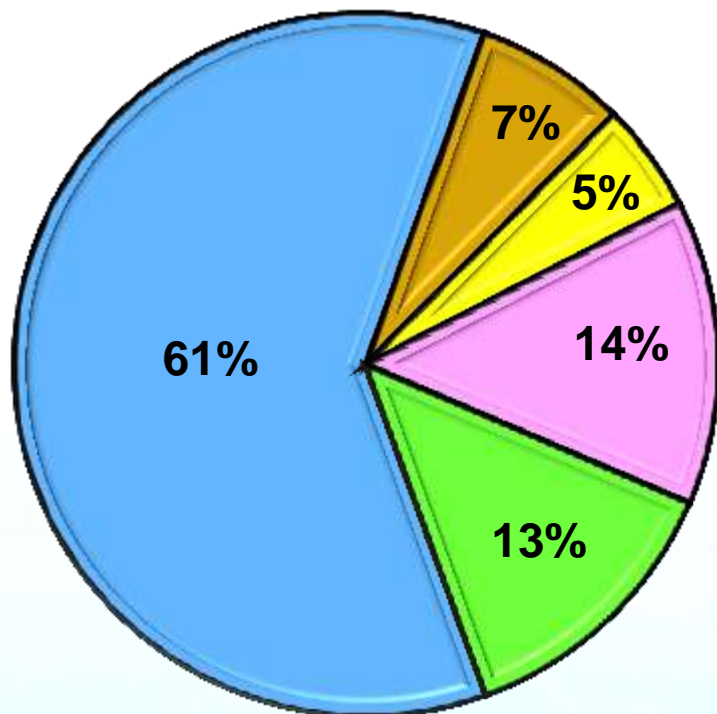
- Notes: (1) 2013 consolidated financial guidance is unchanged from the guidance provided on January 30, 2013.
- (2) The 2013 Guidance does not include any impact of the Sequestration cuts to the DoD budget mandated by the Budget Control Act of 2011, which became effective on March 1, 2013. Presently, there is insufficient information to determine the full effect that the Sequestration cuts will have on our 2013 financial performance. However, based on our preliminary assessment, we believe the Sequestration cuts could reduce our 2013 Guidance by amounts up to: \$500M for sales, 30 bps for operating margin, \$0.65 for diluted EPS and \$80M for free cash flow. These potential Sequester reductions to our 2013 financial guidance exclude any potential non-cash goodwill impairment charges that could result from the Sequester or other DoD budget cuts.
- (3) 2013 estimated pension expense (FAS net CAS) \$14M >2012, reducing operating margin ~10 bps. Assumes a 4.15% discount rate and 2013 weighted average pension asset return of 8.15%.
- (4) The current guidance includes a tax benefit of \$18M, or \$0.20 per share for the enactment of the American Taxpayer Relief Act of 2012 on January 2, 2013, which retroactively reinstated and extended the U.S. federal research and experimentation tax credit for all of 2012 and 2013.
- (5) See Reconciliation of GAAP to Non-GAAP Measurements.

n.m. = not meaningful

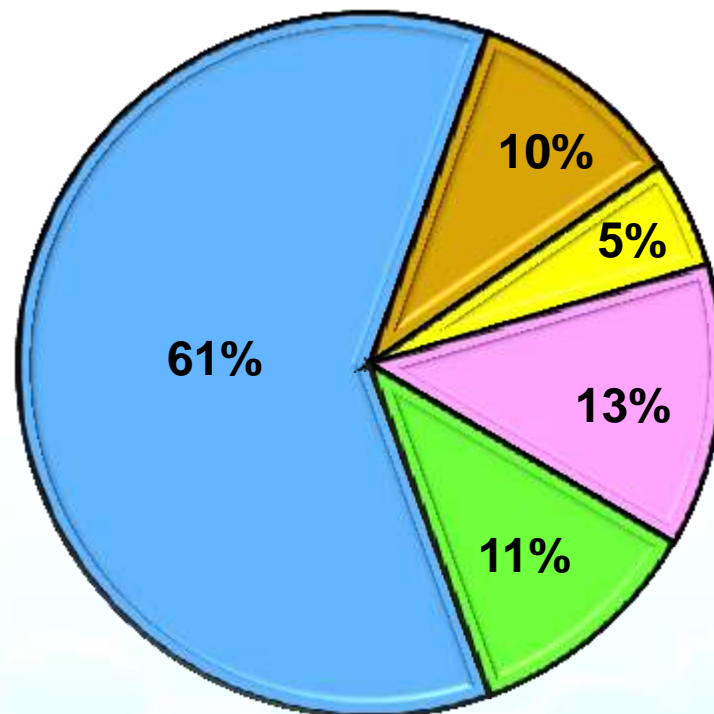


End Customer Sales Mix Trends

2013 Estimate



2012 Actual



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

- U.S. Department of Defense (DoD) - All Other
- DoD Iraq/Afghanistan
- Other U.S. Government
- Commercial
- Foreign Government



2013 Segment Guidance

(\$ in Millions)

Segment	Net Sales	Midpoint Sales vs. 2012	Operating Margin	Midpoint Margin vs. 2012 (bps)	Higher Pension Margin Impact ⁽¹⁾ (bps)
C ³ ISR	\$3,500 to \$3,600	-1%	10.4% to 10.6%	+40	-50
Elect Systems	\$5,425 to \$5,525	-4%	10.7% to 10.9%	-100	+10
P&LS	\$2,325 to \$2,425	-4%	9.1% to 9.3%	-30	n.c.
NSS	\$1,200 to \$1,300	-10%	6.4% to 6.6%	+80	n.c.
L-3 Consolidated	\$12,550 to \$12,750	-4%	10.0%	-30	-10

Notes: (1) Represents the reduction to 2013 operating margin caused by higher estimated pension expense (FAS net of CAS) of \$14M (\$17M higher in C³ISR, partially offset by a \$3M reduction in Electronic Systems).

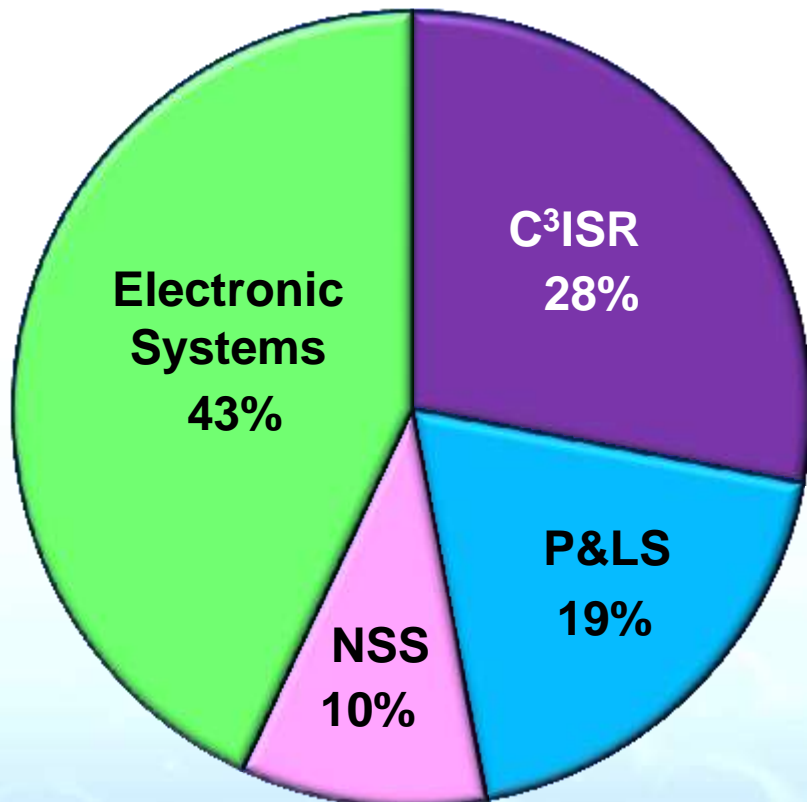
(2) 2013 segment guidance is unchanged from the guidance provided on January 30, 2013.

n.c. = no change

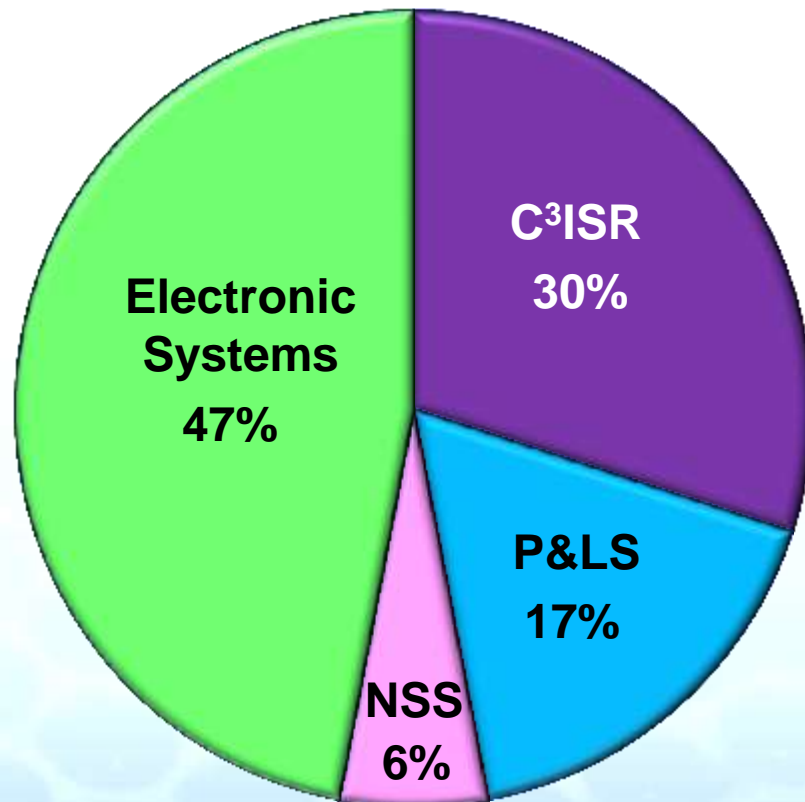


Segment Mix: 2013 Guidance Midpoints

Net Sales



Operating Income



Cash Flow Data



Cash Flow

(\$ in Millions)	1Q13 <u>Actual</u>	1Q12 <u>Actual</u>	2013 <u>Guidance</u>	2012 <u>Actual</u>
Net income from continuing operations	\$ 194	\$ 187	\$ 745	\$ 788
Depreciation & amortization	54	55	230	228
Deferred income taxes	19	20	60	112
401K common stock match	32	34	110	125
Stock-based employee compensation	14	13	55	59
Working Capital/Other Items	(167)	(189)	25	(81)
Capital expenditures, net	(48)	(27)	(195)	(205)
Income tax payments attributable to discontinued operations	-	8	-	24
Free cash flow	<u>\$ 98</u>	<u>\$ 101</u>	<u>\$ 1,030</u>	<u>\$ 1,050</u>

Robust Cash Flow



Supplemental Cash Flow Data

(\$ in Millions)

	<u>1Q13 Actual</u>	<u>1Q12 Actual</u>	<u>2013 Guidance</u>	<u>2012 Actual</u>
Cash interest payments	\$ 48	\$ 48	\$ 171	\$ 198
Income tax payments, net ⁽¹⁾	11	17	270	289
FAS pension expense	45	46	182 ^{(2) (3)}	179
CAS pension cost ⁽⁴⁾	29	32	115	126
Pension contributions	18	59	165	173

(1) Income tax payments, net exclude payments attributable to discontinued operations of \$8M for 1Q12 and \$24M for 2012.

(2) FAS pension expense represents pension expense determined using U.S. GAAP and assumes a 4.15% discount rate (vs. 5.02% for 2012) and a 2013 weighted average pension asset return of 8.12%.

(3) Estimated 2013 Pension Expense Sensitivity: A 25 bps increase/decrease in 12/31/12 discount rate would decrease/increase 2013 pension expense by ~\$14M and decrease/increase the 12/31/12 unfunded obligation by ~\$121M.

(4) CAS pension cost represents estimated allowable and reimbursable pension cost under U.S. Government procurement regulations (determined using Cost Accounting Standards or CAS) on L-3's U.S. Government contracts.



Depreciation, Amortization and Capital Expenditures

(\$ in Millions)

Segment	2013				2012			
	D&A		CapEx, Net		D&A		CapEx, Net	
	1Q13	2013	1Q13	2013	1Q12	2012	1Q12	2012
C ³ ISR	\$ 11	\$ 45	\$ 19	\$ 64	\$ 11	\$ 47	\$ 7	\$ 90
Electronic Systems	36	153	19	105	36	147	17	95
P&LS	4	21	9	21	5	20	2	15
NSS	3	11	1	5	3	14	1	5
Consolidated	\$ 54	\$230	\$ 48	\$195	\$ 55	\$228	\$ 27	\$205

D&A = Depreciation and Amortization

CapEx = capital expenditures net of dispositions of property, plant and equipment.



Cash Sources and Uses, and Capitalization and Leverage



Cash Sources and Uses

(\$ in Millions)

	<u>2013 Guidance</u>	<u>1Q13 Actual</u>	<u>2012 Actual</u>
Beginning cash	\$ 349	\$ 349	\$ 764
Free cash flow from continuing ops.	1,030	98	1,050
Free cash flow from discontinued ops.	-	-	50
Engility spin dividend, gross	-	-	335
Acquisitions, net of divestitures	(10)	-	(343)
Dividends	(198)	(52)	(195)
Share repurchases	(500)	(122)	(872)
Debt repayments	(250)	-	(500)
Other, net	29	3	60
Ending cash	<u>\$ 450</u>	<u>\$ 276</u>	<u>\$ 349</u>

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



Capitalization and Leverage

(\$ in Millions)

	3/29/13 Actual	12/31/12 Actual
Cash	\$276	\$349
Debt	\$3,629	\$3,629
Equity	5,588	5,539
Invested Capital	\$9,217	\$9,168
Debt/Invested Capital	39.4%	39.6%
Bank Leverage Ratio	2.08x	2.04x
Available Revolver	\$1,000	\$1,000

Note: Equity includes non-controlling interests (minority interests) of \$75M as of March 29, 2013 and \$76M as of Dec 31, 2012.



Appendix



Debt Balances and Maturities

(\$ in Millions)

	3/29/13 Actual	Type	Maturity Date	Redemption Premium
Senior:				
Revolver	\$ -	L+150 bpts	2/3/17	n.a.
3.95% Senior Notes	500	fixed	11/15/16	T+0.50% make-whole
5.2% Senior Notes	1,000	fixed	10/15/19	T+0.30% make-whole
4.75% Senior Notes	800	fixed	7/15/20	T+0.25% make-whole
4.95% Senior Notes	650	fixed	2/15/21	T+0.25% make-whole
Subordinated:				
3% CODES	689	fixed	8/1/35	0%
Unamortized Discounts	(10)			
Total	\$ 3,629			

Notes: (1) The contingent convertible notes (CODES) contain "puts" that holders can exercise on Feb 1, 2016, and every 5-year anniversary thereafter at a price of 100%. Current conversion price is \$91.21.

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



Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2013 Estimate</u>	<u>1Q13 Actual</u>	<u>2012 Actual</u>	<u>1Q12 Actual</u>
Net cash from operating activities	\$ 1,225	\$ 146	\$ 1,231	\$ 120
Less Capital expenditures	(205)	(49)	(210)	(27)
Add: Dispositions of property, plant and equipment	10	1	5	-
Income tax payments attributable to discontinued operations	-	-	24	8
Free cash flow	<u>\$ 1,030</u>	<u>\$ 98</u>	<u>\$ 1,050</u>	<u>\$ 101</u>



