

# *Second Quarter Earnings Call* *July 31, 2014*

## Preliminary Financial Data Charts



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

# Forward-Looking Statements

Certain of the matters discussed in these slides, including information regarding the company's 2014 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: the completion of our internal review and the effect, if any, of the results of such internal review on our relationships with our customers and/or on our financial condition or results of operations or our internal controls over financial reporting; our dependence on the defense industry; backlog processing and program slips resulting from delayed funding of the Department of Defense (DoD) budget; U.S. Government failure to raise the debt ceiling; our reliance on contracts with a limited number of customers and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding many of our contracts; our ability to retain our existing business and related contracts; our ability to successfully compete for and win new business; or, identify, acquire and integrate additional businesses; our ability to maintain and improve our operating margin; the availability of government funding and changes in customer requirements for our products and services; our significant amount of debt and the restrictions contained in our debt agreements; our ability to continue to recruit, retain and train our employees; actual future interest rates, volatility and other assumptions used in the determination of pension benefits and equity based compensation, as well as the market performance of benefit plan assets; our collective bargaining agreements, our ability to successfully negotiate contracts with labor unions and our ability to favorably resolve labor disputes should they arise; the business, economic and political conditions in the markets in which we operate; global economic uncertainty; the DoD's in-sourcing and efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts on schedule; our international operations; our extensive use of fixed-price type contracts; the rapid change of technology and high level of competition in which our businesses participate; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the outcome of litigation matters; results of audits by U.S. Government agencies and of on-going governmental investigations; the impact on our business of improper conduct by our employees, agents or business partners; ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations; and the fair values of our assets.

Please refer to our preliminary earnings release issued on July 31, 2014 for a discussion of the internal review of accounting matters at our Aerospace Systems segment and the possible impacts of the conclusions of the internal review on our business and results of operations.

Our forward-looking statements speak only as of the date of these slides or as of the date they were made, and we undertake no obligation to update forward-looking statements. For a more detailed discussion of these factors, also see the information under the captions "Risk Factors" in our most recent Annual Report on Form 10-K for the year ended December 31, 2013 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Current Report on Form 8-K filed on May 2, 2014 and in the quarterly report on Form 10-Q for the quarterly period ended March 28, 2014 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, in addition to factors relating to our internal review discussed above, 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.



# Preliminary Second Quarter Results



# Preliminary Select Financial Data - Second Quarter

(\$ in Millions, except per share amounts, 2013 as revised)

|                                           | <u>2Q14</u>    | <u>2Q13</u>    | <u>vs. 2Q13</u> |
|-------------------------------------------|----------------|----------------|-----------------|
| <b>Sales</b>                              | <b>\$3,015</b> | <b>\$3,198</b> | <b>-6%</b>      |
| <b>Operating Margin</b>                   | <b>8.9%</b>    | <b>9.4%</b>    | <b>-50 bps</b>  |
| <b>Operating Income</b>                   | <b>\$268</b>   | <b>\$301</b>   | <b>-11%</b>     |
| <b>Interest Expense</b>                   | <b>\$39</b>    | <b>\$44</b>    | <b>-11%</b>     |
| <b>Interest and Other Income, Net</b>     | <b>\$4</b>     | <b>\$5</b>     | <b>n.m.</b>     |
| <b>Tax Rate</b>                           | <b>31.3%</b>   | <b>30.5%</b>   | <b>+80 bps</b>  |
| <b>Diluted Shares</b>                     | <b>89.3</b>    | <b>91.1</b>    | <b>-2%</b>      |
| <b>Diluted Earnings Per Share (EPS)</b>   | <b>\$1.75</b>  | <b>\$1.99</b>  | <b>-12%</b>     |
| <b>Net Cash from Operating Activities</b> | <b>\$277</b>   | <b>\$250</b>   | <b>11%</b>      |
| <b>Free Cash Flow</b>                     | <b>\$241</b>   | <b>\$197</b>   | <b>22%</b>      |

Notes: (1) The 2Q14 higher tax rate is primarily due to (i) a higher effective tax rate on foreign earnings and (ii) a \$3M tax benefit related to the U.S. Federal research and experimentation (R&E) tax credit in the 2Q13, compared to no R&E tax credit in the 2Q14.

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

n.m. = not meaningful



# Preliminary Segment Results - Second Quarter

(\$ in Millions, 2013 as revised)

| Segment               | 2Q14 Sales      | Sales Growth vs. 2Q13 | 2Q14 Operating Margin | Margin Change 2Q13 (bps) |
|-----------------------|-----------------|-----------------------|-----------------------|--------------------------|
| Aerospace Systems     | \$ 1,054        | -8%                   | 6.2%                  | -390                     |
| Electronic Systems    | 1,106           | -2%                   | 12.2%                 | +90                      |
| Communication Systems | 520             | -13%                  | 9.4%                  | +270                     |
| NSS                   | 335             | 1%                    | 5.7%                  | n.c.                     |
| <b>Consolidated</b>   | <b>\$ 3,015</b> | <b>-6%</b>            | <b>8.9%</b>           | <b>-50</b>               |

n.c. = no change



# Preliminary First Half Results



# Preliminary Select Financial Data - First Half

(\$ in Millions, except per share amounts, 2013 as revised)

|                                           | <u>1H14</u>    | <u>1H13</u>    | <u>vs. 1H13</u> |
|-------------------------------------------|----------------|----------------|-----------------|
| <b>Sales</b>                              | <b>\$5,984</b> | <b>\$6,403</b> | <b>-7%</b>      |
| <b>Operating Margin</b>                   | <b>9.5%</b>    | <b>9.6%</b>    | <b>-10 bps</b>  |
| <b>Operating Income</b>                   | <b>\$571</b>   | <b>\$617</b>   | <b>-7%</b>      |
| <b>Interest Expense</b>                   | <b>\$82</b>    | <b>\$87</b>    | <b>-6%</b>      |
| <b>Interest and Other Income, Net</b>     | <b>\$7</b>     | <b>\$8</b>     | <b>n.m.</b>     |
| <b>Tax Rate</b>                           | <b>31.5%</b>   | <b>29.7%</b>   | <b>+180 bps</b> |
| <b>Diluted Shares</b>                     | <b>89.4</b>    | <b>91.3</b>    | <b>-2%</b>      |
| <b>Diluted Earnings Per Share</b>         | <b>\$3.74</b>  | <b>\$4.12</b>  | <b>-9%</b>      |
| <b>Net Cash from Operating Activities</b> | <b>\$215</b>   | <b>\$396</b>   | <b>-46%</b>     |
| <b>Free Cash Flow</b>                     | <b>\$150</b>   | <b>\$295</b>   | <b>-49%</b>     |

Notes: (1) The 1H14 higher tax rate is primarily due to tax benefits in the 1H13 of \$15M related to the retroactive reinstatement in January 2013 of the U.S. Federal research and experimentation tax credit for all of 2012 and the 1H13, compared to no R&E tax credit in the 1H14.

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

n.m. = not meaningful



# Preliminary Segment Results - First Half

(\$ in Millions, 2013 as revised)

| Segment               | 1H14 Sales      | Sales Growth vs. 1H13 | 1H14 Operating Margin | Margin Change 1H13 (bps) |
|-----------------------|-----------------|-----------------------|-----------------------|--------------------------|
| Aerospace Systems     | \$ 2,134        | -9%                   | 8.2%                  | -240                     |
| Electronic Systems    | 2,188           | -2%                   | 11.9%                 | +100                     |
| Communication Systems | 1,023           | -12%                  | 9.7%                  | +240                     |
| NSS                   | 639             | -4%                   | 5.8%                  | -20                      |
| <b>Consolidated</b>   | <b>\$ 5,984</b> | <b>-7%</b>            | <b>9.5%</b>           | <b>-10</b>               |





# Preliminary 2014 Financial Guidance



# Preliminary 2014 Consolidated Financial Guidance

(\$ in Millions, except per share amounts, 2013 as revised)

|                                  | <b>Guidance<br/>(July 31, 2014)</b> | <b>Midpoint<br/>vs. 2013</b> |
|----------------------------------|-------------------------------------|------------------------------|
| <b>Sales</b>                     | <b>\$12,025 to \$12,225</b>         | <b>-4%</b>                   |
| <b>Operating margin</b>          | <b>9.9%</b>                         | <b>+10 bps</b>               |
| <b>Interest expense</b>          | <b>\$178</b>                        | <b>\$1</b>                   |
| <b>Interest and other income</b> | <b>\$14</b>                         | <b>-\$1</b>                  |
| <b>Effective tax rate</b>        | <b>32.0%</b>                        | <b>+380 bps</b>              |
| <b>Diluted shares</b>            | <b>87.5</b>                         | <b>-4%</b>                   |
| <b>Diluted EPS</b>               | <b>\$7.90 to \$8.10</b>             | <b>-3%</b>                   |
| <b>Free cash flow</b>            | <b>\$900 to \$950</b>               | <b>-13%</b>                  |

**Preliminary 2014 Consolidated Financial Guidance Assumptions:**

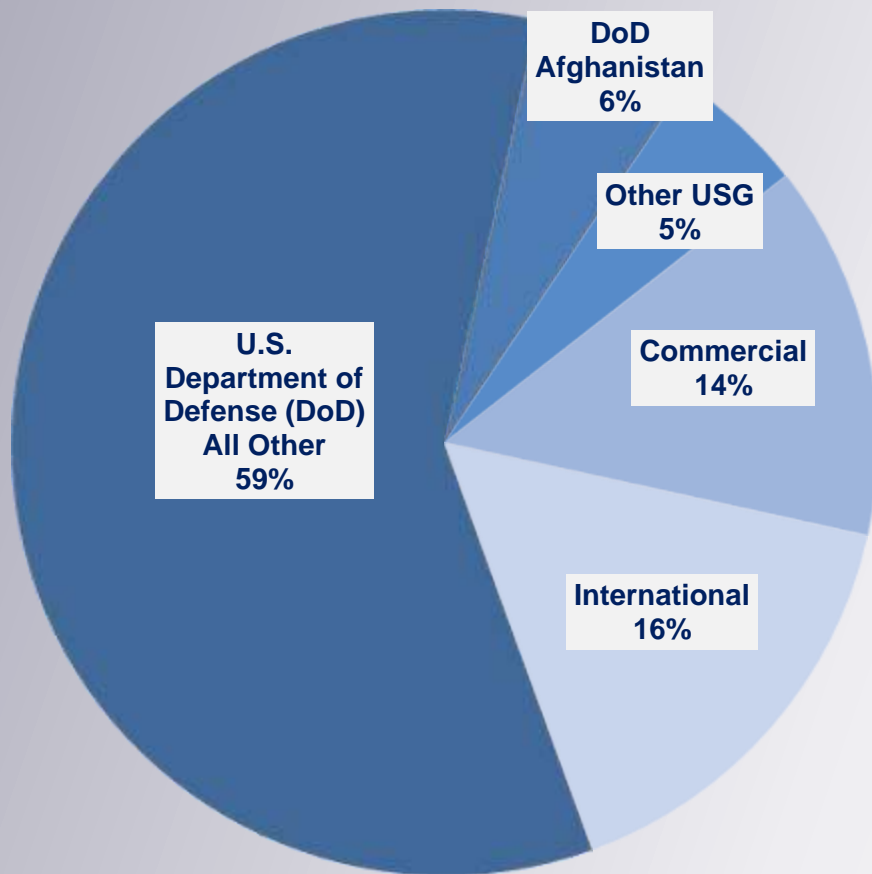
- (1) Lower pension expense vs. 2013 increases operating income by \$97 million and operating margin by 80 bps.
- (2) The U.S. Federal research and experimentation (R&E) tax credit, which expired on December 31, 2013, increases effective tax rate by 130 bps and reduces diluted EPS by \$0.16.
- (3) Share repurchases of \$700 million.
- (4) The acquisition of Data Tactics Corporation, completed on March 4, 2014, which adds ~\$50 million of sales.
- (5) Guidance excludes any potential non-cash goodwill impairment charges for which the information is presently unknown.

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

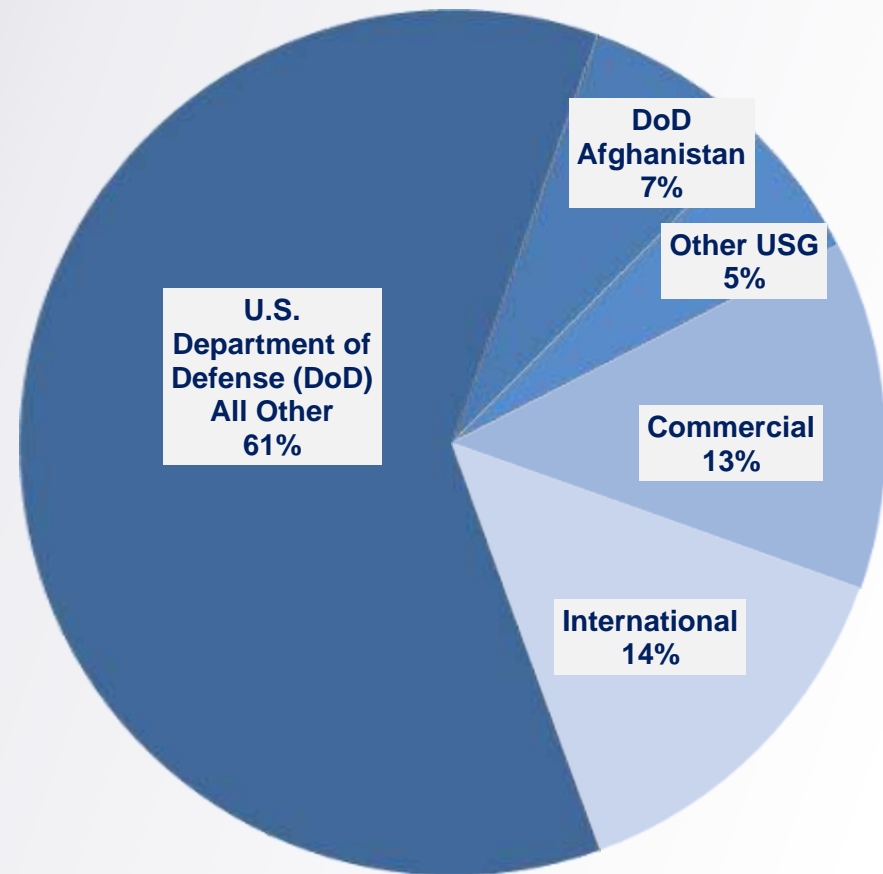


# Preliminary End Customer Sales Mix Trends

## 2014 Estimate



## 2013 Actual



**Direct to End Customer = 68%**  
**Indirect to End Customer = 32%**



# Preliminary 2014 Segment Guidance

(\$ in Millions, 2013 as revised)

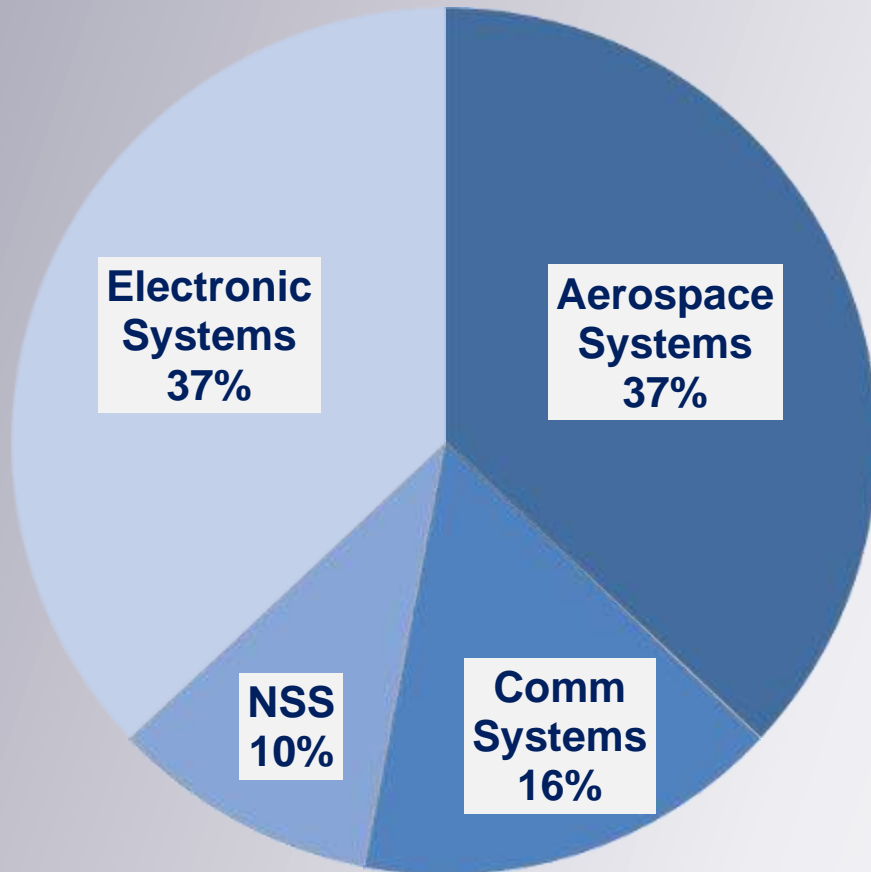
| Segment                 | Sales                       | Midpoint Sales vs. 2013 | Operating Margin | Midpoint Margin vs. 2013 (bps) | Pension Margin Impact* (bps) |
|-------------------------|-----------------------------|-------------------------|------------------|--------------------------------|------------------------------|
| Aerospace Systems       | \$4,450 to \$4,550          | -1%                     | 9.0% to 9.2%     | -80                            | +70                          |
| Electronic Systems      | \$4,450 to \$4,550          | -2%                     | 11.7% to 11.9%   | +20                            | +70                          |
| Comm Systems            | \$1,825 to \$1,925          | -14%                    | 9.6% to 9.8%     | +200                           | +170                         |
| NSS                     | \$1,200 to \$1,300          | -3%                     | 6.4% to 6.6%     | -10                            | +10                          |
| <b>L-3 Consolidated</b> | <b>\$12,025 to \$12,225</b> | <b>-4%</b>              | <b>9.9%</b>      | <b>+10</b>                     | <b>+80</b>                   |

\* Lower pension expense 2014 vs. 2013 increases operating income \$97M (Aerospace Systems \$33M, Electronic Systems \$32M, Communication Systems \$31M, and NSS \$1M).

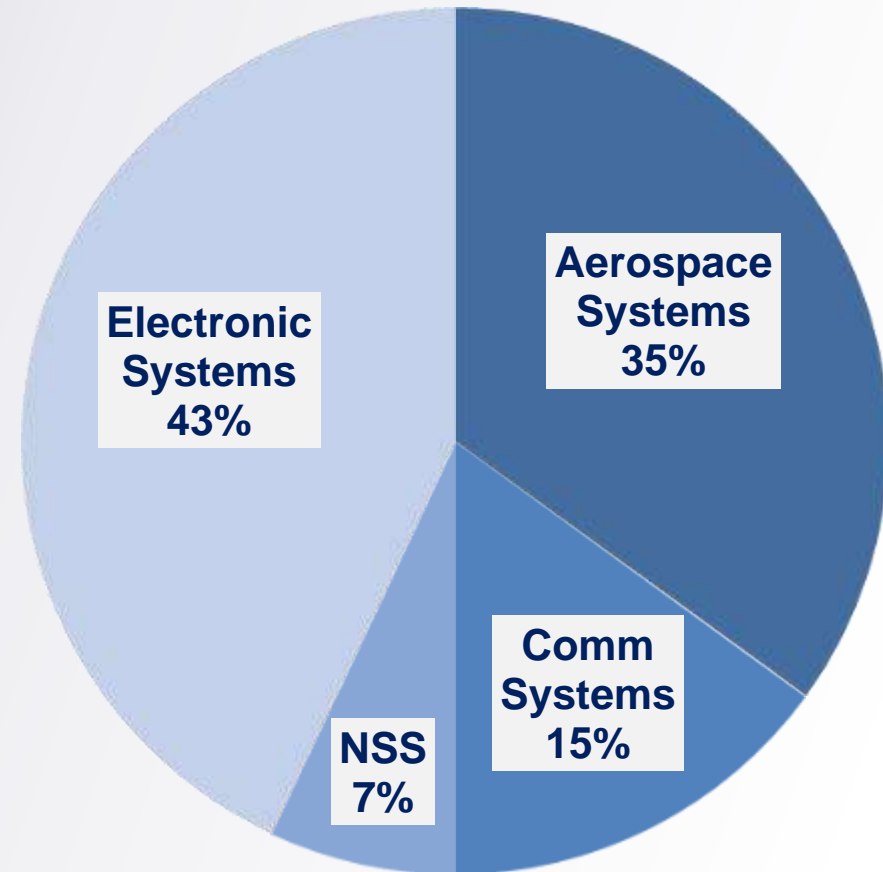


# Preliminary Segment Mix: 2014 Guidance Midpoints

## Sales



## Operating Income



# Preliminary Cash Flow Data



# Preliminary Free Cash Flow

(\$ in Millions, 2013 as revised)

|                                             | 2Q14          | 2Q13          | 1H14          | 1H13          | 2014          | 2013           |
|---------------------------------------------|---------------|---------------|---------------|---------------|---------------|----------------|
|                                             | Actual        | Actual        | Actual        | Actual        | Guidance*     | Actual         |
| Net income                                  | \$ 160        | \$ 182        | \$ 340        | \$ 378        | \$ 710        | \$ 771         |
| Depreciation & amortization                 | 55            | 52            | 109           | 106           | 222           | 214            |
| Deferred income taxes                       | 18            | (7)           | 40            | 12            | 80            | 47             |
| 401K common stock match                     | 30            | 29            | 74            | 61            | 125           | 114            |
| Stock-based employee compensation           | 14            | 14            | 29            | 28            | 57            | 59             |
| Amortization of pension and OPEB net losses | 4             | 21            | 8             | 43            | 15            | 83             |
| Working capital/other items                 | (4)           | (41)          | (385)         | (232)         | (89)          | (25)           |
| Capital expenditures, net                   | (36)          | (53)          | (65)          | (101)         | (195)         | (197)          |
| Free cash flow                              | <u>\$ 241</u> | <u>\$ 197</u> | <u>\$ 150</u> | <u>\$ 295</u> | <u>\$ 925</u> | <u>\$1,066</u> |

**Robust Cash Flow**

\* Based on midpoint of preliminary Guidance.



# Preliminary Supplemental Cash Flow Data

(\$ in Millions, 2013 as revised)

|                                 | <u>2Q14</u><br><u>Actual</u> | <u>2Q13</u><br><u>Actual</u> | <u>1H14</u><br><u>Actual</u> | <u>1H13</u><br><u>Actual</u> | <u>2014</u><br><u>Guidance</u> | <u>2013</u><br><u>Actual</u> |
|---------------------------------|------------------------------|------------------------------|------------------------------|------------------------------|--------------------------------|------------------------------|
| Cash interest payments          | \$ 38                        | \$ 38                        | \$ 86                        | \$ 86                        | \$ 176                         | \$ 171                       |
| Income tax payments, net        | 75                           | 112                          | 114                          | 123                          | 265                            | 226                          |
| FAS pension expense             | 20                           | 46                           | 41                           | 91                           | 81 <sup>(1) (2)</sup>          | 181                          |
| CAS pension cost <sup>(3)</sup> | 27                           | 29                           | 56                           | 57                           | 114                            | 117                          |
| Pension contributions           | 34                           | 25                           | 48                           | 43                           | 97                             | 105                          |

(1) FAS pension expense represents pension expense determined using U.S. GAAP and assumes a 2014 weighted average discount rate of 5.03% (vs. 4.15% for 2013) and a 2014 weighted average pension asset return of 8.13%.

(2) Estimated 2014 Pension Expense Sensitivity: A 25 bps increase/decrease in 12/31/13 discount rate would decrease/increase 2014 pension expense by ~\$10M and decrease/increase the 12/31/13 unfunded obligation by ~\$97M.

(3) 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.





# Preliminary Depreciation, Amortization and Capital Expenditures

(\$ in Millions)

| Segment             | 2014         |              |              |              | 2013         |              |              |              |
|---------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                     | D&A          |              | CapEx, Net   |              | D&A          |              | CapEx, Net   |              |
|                     | 2Q14         | 1H14         | 2Q14         | 1H14         | 2Q13         | 1H13         | 2Q13         | 1H13         |
| Aeospace Systems    | \$ 9         | \$ 19        | \$ 7         | \$ 16        | \$ 9         | \$ 18        | \$ 12        | \$ 24        |
| Electronic Systems  | 30           | 59           | 21           | 36           | 29           | 59           | 22           | 38           |
| Comm Systems        | 13           | 25           | 6            | 10           | 11           | 23           | 17           | 36           |
| NSS                 | 3            | 6            | 2            | 3            | 3            | 6            | 2            | 3            |
| <b>Consolidated</b> | <b>\$ 55</b> | <b>\$109</b> | <b>\$ 36</b> | <b>\$ 65</b> | <b>\$ 52</b> | <b>\$106</b> | <b>\$ 53</b> | <b>\$101</b> |

D&A = Depreciation and Amortization

CapEx, Net = Capital expenditures net of dispositions of property, plant and equipment



# Preliminary Cash Sources and Uses, and Capitalization and Leverage



# Preliminary Cash Sources and Uses

(\$ in Millions)

|                                      | <u>2Q14<br/>Actual</u> | <u>2Q13<br/>Actual</u> | <u>1H14<br/>Actual</u> | <u>1H13<br/>Actual</u> | <u>2014<br/>Guidance*</u> | <u>2013<br/>Actual</u> |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|---------------------------|------------------------|
| Beginning cash                       | \$ 227                 | \$ 276                 | \$ 500                 | \$ 349                 | \$ 500                    | \$ 349                 |
| Free cash flow                       | 241                    | 197                    | 150                    | 295                    | 925                       | 1,066                  |
| Acquisitions, net of<br>divestitures | 5                      | 3                      | (52)                   | 3                      | (52)                      | (58)                   |
| Dividends                            | (52)                   | (49)                   | (107)                  | (101)                  | (208)                     | (199)                  |
| Share repurchases                    | (200)                  | (126)                  | (333)                  | (248)                  | (700)                     | (800)                  |
| Senior notes net proceeds            | 988                    | -                      | 988                    | -                      | 988                       | -                      |
| CODES redemption                     | (935)                  | -                      | (935)                  | -                      | (935)                     | -                      |
| Other                                | 25                     | 27                     | 88                     | 30                     | 127                       | 142                    |
| Ending cash                          | <u>\$ 299</u>          | <u>\$ 328</u>          | <u>\$ 299</u>          | <u>\$ 328</u>          | <u>\$ 645</u>             | <u>\$ 500</u>          |

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

\* Based on midpoint of Preliminary Free Cash Flow Guidance.



# Preliminary Capitalization and Leverage

(\$ in Millions, 2013 as revised)

|                              | 6/27/14<br>Actual | 12/31/13<br>Actual |
|------------------------------|-------------------|--------------------|
| Cash                         | \$299             | \$500              |
| Debt                         | \$3,938           | \$3,630            |
| Equity                       | 6,013             | 6,062              |
| Invested Capital             | \$9,951           | \$9,692            |
| <b>Debt/Invested Capital</b> | <b>39.6%</b>      | <b>37.5%</b>       |
| <b>Bank Leverage Ratio</b>   | <b>2.46x</b>      | <b>2.12x</b>       |
| <b>Available Revolver</b>    | <b>\$1,000</b>    | <b>\$1,000</b>     |

Note: Equity includes non-controlling interests (minority interests) of \$75M as of June 27, 2014 and December 31, 2013.



# Appendix



# Preliminary Debt Balances and Maturities

(\$ in Millions)

|                       | <u>6/27/14<br/>Actual</u> | <u>Type</u> | <u>Maturity<br/>Date</u> | <u>Redemption<br/>Premium</u> |
|-----------------------|---------------------------|-------------|--------------------------|-------------------------------|
| Revolver              | \$ -                      | L+150 bpts  | 2/3/17                   | n.a.                          |
| 3.95% Senior Notes    | 500                       | fixed       | 11/15/16                 | T+0.50% make-whole            |
| 1.50% Senior Notes    | 350                       | fixed       | 5/28/17                  | T+0.10% make-whole            |
| 5.20% 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            |
| 3.95% Senior Notes    | 650                       | fixed       | 5/28/24                  | T+0.20% make-whole            |
| Unamortized Discounts | (12)                      |             |                          |                               |
| <b>Total</b>          | <b>\$ 3,938</b>           |             |                          |                               |

T = comparable U.S. treasury note rate.

L = LIBOR rate



# Preliminary Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

|                                                          | <u>2014<br/>Guidance*</u> | <u>1H14<br/>Actual</u> | <u>2Q14<br/>Actual</u> | <u>2013<br/>Actual</u> | <u>1H13<br/>Actual</u> | <u>2Q13<br/>Actual</u> |
|----------------------------------------------------------|---------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Net cash from operating activities                       | \$ 1,120                  | \$ 215                 | \$ 277                 | \$1,263                | \$ 396                 | \$ 250                 |
| Less: Capital expenditures                               | (200)                     | (67)                   | (37)                   | (209)                  | (110)                  | (61)                   |
| Add: Dispositions of<br>property, plant and<br>equipment | 5                         | 2                      | 1                      | 12                     | 9                      | 8                      |
| Free cash flow                                           | <u>\$ 925</u>             | <u>\$ 150</u>          | <u>\$ 241</u>          | <u>\$1,066</u>         | <u>\$ 295</u>          | <u>\$ 197</u>          |

\* Based on midpoint of preliminary Guidance.



