

# **Third Quarter Earnings Call November 1, 2012**



## **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 2012 financial outlook that are predictive in nature, that depend upon or refer to events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions constitute forward-looking statements. Although we believe that these statements are based upon reasonable assumptions, including projections of total sales growth, sales growth from business acquisitions, organic sales growth, consolidated operating margins, total segment operating margins, interest expense, earnings, cash flow, research and development costs, working capital, capital expenditures and other projections, they are subject to several risks and uncertainties, and therefore, we can give no assurance that these statements will be achieved. Such statements will also be influenced by factors which include, among other things: our dependence on the defense industry and the business risks peculiar to that industry, including changing priorities or reductions in the U.S. Government defense budget; 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 agencies of, or contractors to, the U.S. Government and the possibility of termination of government contracts by unilateral government action or for failure to perform; the extensive legal and regulatory requirements surrounding our contracts with the U.S. or foreign governments and the results of any investigation of our contracts undertaken by the U.S. or foreign governments; our ability to retain our existing business and related contracts (revenue arrangements); our ability to successfully compete for and win new business and related contracts (revenue arrangements) and to win re-competitions of our existing contracts; our ability to identify and acquire additional businesses in the future with terms that are attractive to L-3 and to integrate acquired business operations; the impact of any strategic initiatives undertaken by us, and our ability to achieve anticipated benefits; our ability to maintain and improve our consolidated operating margin and total segment operating margin in future periods; our ability to obtain future government contracts (revenue arrangements) on a timely basis; the availability of government funding or cost-cutting initiatives and changes in customer requirements for our products and services; our significant amount of debt and the restrictions contained in our debt agreements; our ability to continue to retain and train our existing employees and to recruit and hire new qualified and skilled employees as well as our ability to retain and hire employees with U.S. Government security clearances; actual future interest rates, volatility and other assumptions used in the determination of pension benefits and equity based compensation, as well as the market performance of benefit plan assets; our collective bargaining agreements, our ability to successfully negotiate contracts with labor unions and our ability to favorably resolve labor disputes should they arise; the business, economic and political conditions in the markets in which we operate, including those for the commercial aviation, shipbuilding and communications markets; global economic uncertainty; the DoD's contractor support services in-sourcing and efficiency initiatives; events beyond our control such as acts of terrorism; our ability to perform contracts (revenue arrangements) on schedule; our international operations; our extensive use of fixed-price type contracts as compared to cost-plus type and time-and-material type contracts; the rapid change of technology and high level of competition in the defense industry and the commercial industries in which our businesses participate; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the outcome of litigation matters, including in connection with jury trials; results of audits by U.S. Government agencies; results of on-going governmental investigations, including potential suspensions or debarments; the impact on our business of improper conduct by our employees, agents or business partners; anticipated cost savings from business acquisitions not fully realized or realized within the expected time frame; the outcome of matters relating to the Foreign Corrupt Practices Act (FCPA) and similar non-U.S. regulations; ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations; competitive pressure among companies in our industry; and the fair values of our assets, which can be impaired or reduced by other factors, some of which are discussed above.

For a discussion of these and other risks and uncertainties that could impair our results of operations or financial condition, see "Part I — Item 1A — Risk Factors" and Note 19 to our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended December 31, 2011, "Part I – Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview and Outlook – Industry Considerations", included in our Quarterly Reports on Form 10-Q for the quarters ended June 29, 2012 and March 30, 2012, and any material updates to these factors contained in any of our future filings.

Our forward-looking statements are not guarantees of future performance and the actual results or developments may differ materially from the expectations expressed in the forward-looking statements. As for the forward-looking statements that relate to future financial results and other projections, actual results will be different due to the inherent uncertainties of estimates, forecasts and projections and may be better or worse than projected and such differences could be material. Given these uncertainties, you should not place any reliance on these forward-looking statements. These forward-looking statements also represent our estimates and assumptions only as of the date that they were made. We expressly disclaim a duty to provide updates to these forward-looking statements, and the estimates and assumptions associated with them, after the date of these slides to reflect events or changes in circumstances or changes in expectations or the occurrence of anticipated events.



# Third Quarter Results



# Select Financial Data - Third Quarter

(\$ in Millions, except per share amounts)

	3Q12	3Q11	vs. 3Q11
<b>Sales</b>	<b>\$3,283</b>	<b>\$3,301</b>	<b>-0.5%</b>
<b>Operating Margin</b>	<b>10.1%</b>	<b>10.9%</b>	<b>-80 bps</b>
<b>Operating Income</b>	<b>\$331</b>	<b>\$359</b>	<b>-8%</b>
<b>Net Interest Expense and Other Income</b>	<b>\$48</b>	<b>\$47</b>	<b>2%</b>
<b>Debt Retirement Charge</b>	<b>\$8</b>	<b>-</b>	<b>n.m.</b>
<b>Tax Rate</b>	<b>29.1%</b>	<b>31.4%</b>	<b>-230 bps</b>
<b>Diluted Shares</b>	<b>97.4</b>	<b>104.8</b>	<b>-7%</b>
<b>Diluted Earnings Per Share (EPS) from Continuing Operations</b>	<b>\$1.98</b>	<b>\$2.02</b>	<b>-2%</b>
<b>Net Cash from Operating Activities</b>	<b>\$352</b>	<b>\$387</b>	<b>-9%</b>
<b>Free Cash Flow</b>	<b>\$309</b>	<b>\$340</b>	<b>-9%</b>

- Notes: (1) All amounts presented exclude Engility Holdings, Inc., which was spun-off on July 17, 2012 and is classified as a discontinued operation.  
(2) The 3Q12 lower tax rate is due to a tax benefit of \$11 million primarily related to the reversal of amounts previously accrued for tax years in which the statute of limitations had expired, partially offset by the expiration of the U.S. Federal research and experimentation tax credit.  
(3) See Reconciliation of GAAP to Non-GAAP Measurements.  
(4) Free cash flow includes income tax payments attributable to discontinued operations of \$8 million for 3Q12 and \$14 million for 3Q11.



# Segment Results - Third Quarter

(\$ in Millions)

Segment	3Q12 Sales	Sales Growth vs. 3Q11	3Q12 Operating Margin	Margin Change vs. 3Q11 (bps)
Electronic Systems	\$ 1,395	1%	11.3%	-70
C <sup>3</sup> ISR	886	1%	10.5%	-90
AM&M	649	4%	10.0%	+30
NSS	353	-16%	4.1%	-370
<b>Consolidated</b>	<b>\$ 3,283</b>	<b>-0.5%</b>	<b>10.1%</b>	<b>-80</b>

Notes: (1) During 1Q12, the company re-aligned the management and organizational structure of a business unit, and made related reclassifications between its C<sup>3</sup>ISR and Electronic Systems segments. See Supplemental Segment Data slide for the previous and revised 3Q11 segment data presentation.

(2) All amounts presented exclude Engility Holdings, Inc., which was spun-off on July 17, 2012 and is classified as a discontinued operation.

# Year to Date September Results

# Select Financial Data - Year to Date September

(\$ in Millions, except per share amounts)

	2012 Actual	2011 Actual	2012 vs. 2011
Sales	\$9,586	\$9,615	-0.3%
Operating Margin	10.3%	10.9%	-60 bps
Operating Income	\$987	\$1,045	-6%
Net Interest Expense and Other Income	\$132	\$142	-7%
Debt Retirement Charge	\$8	\$18	n.m.
Tax Rate	32.3%	31.1%	+120 bps
Diluted Shares	98.7	107.2	-8%
Diluted Earnings Per Share (EPS) from Continuing Operations	\$5.78	\$5.62	3%
Net Cash from Operating Activities	\$692	\$749	-8%
Free Cash Flow	\$574	\$630	-9%

- Notes: (1) All amounts presented exclude Engility Holdings, Inc., which was spun-off on July 17, 2012 and is classified as a discontinued operation.  
(2) The 2012 higher tax rate is primarily due to the expiration of the U.S. Federal research and experimentation tax credit. The 2012 and 2011 year-to-date periods included tax benefits of \$11M and \$12M, respectively, primarily related to the reversal of amounts previously accrued for prior tax years.  
(3) See Reconciliation of GAAP to Non-GAAP Measurements.  
(4) Free cash flow includes income tax payments attributable to discontinued operations of \$24 million for the 2012 period and \$46 million for the 2011 period.

# Segment Results - Year to Date September

(\$ in Millions)

Segment	2012 Sales	Sales Growth vs. 2011	2012 Operating Margin	Margin Change vs. 2011 (bps)
Electronic Systems	\$ 4,060	-0.3%	11.8%	-60
C <sup>3</sup> ISR	2,634	7%	10.3%	-120
AM&M	1,854	2%	9.6%	-30
NSS	1,038	-17%	5.4%	-70
<b>Consolidated</b>	<b>\$ 9,586</b>	<b>-0.3%</b>	<b>10.3%</b>	<b>-60</b>

- Notes: (1) During 1Q12, the company re-aligned the management and organizational structure of a business unit, and made related reclassifications between its Electronic Systems and C<sup>3</sup>ISR and segments. See Supplemental Segment Data slide for the previous and revised 9M11 segment data presentation.
- (2) All amounts presented exclude Engility Holdings, Inc., which was spun-off on July 17, 2012 and is classified as a discontinued operation.



# 2012 Financial Guidance



# 2012 Consolidated Financial Guidance

(\$ in Millions, except per share amounts)

	Current Guidance (Nov. 1, 2012)	Prior Guidance (Jul. 26, 2012)
<b>Net Sales</b>	<b>\$13,000 to \$13,100</b>	<b>\$12,950 to \$13,150</b>
<b>Operating Margin</b>	<b>10.3%</b>	<b>10.3%</b>
<b>Interest Expense/Other</b>	<b>\$176</b>	<b>\$177</b>
<b>Debt Retirement Charge</b>	<b>\$13</b>	<b>\$8</b>
<b>Effective Tax Rate</b>	<b>33.2%</b>	<b>34.4%</b>
<b>Diluted EPS from continuing ops</b>	<b>\$7.80 to \$7.90</b>	<b>\$7.70 to \$7.85</b>
<b>Net Cash from Operating Activities</b>	<b>\$1,230</b>	<b>\$1,240</b>
<b>Less: CapEx, net of Dispositions</b>	<b>\$(185)</b>	<b>\$(195)</b>
<b>Free Cash Flow</b>	<b>\$1,045</b>	<b>\$1,045</b>

The revisions to the company's 2012 consolidated financial guidance compared to the previous guidance provided on July 26, 2012, are primarily due to the items listed below:

- Updating the consolidated and segment guidance ranges for net sales and operating margin for: (a) year-to-date nine month actual results, (b) the addition of the Link U.K. business acquisition completed on August 6, 2012, to the Electronic Systems segment, which is expected to add between \$60 million and \$70 million to 2012 sales, and (c) reduced estimated sales in the Electronic Systems segment of approximately \$90 million, primarily due to fewer book-and-ship orders and a lower Euro-U.S. dollar foreign exchange rate.
- Increased diluted EPS attributable to: (a) the 2012 third quarter income tax gain of \$0.11, (b) the Link U.K. business acquisition of approximately \$0.01, (c) the 2012 third quarter \$0.02 charge included in net interest expense and other income from the dissolution of a unconsolidated joint venture and (d) a 2012 fourth quarter debt retirement charge of \$0.03.

# 2012 Segment Guidance

(\$ in Millions)

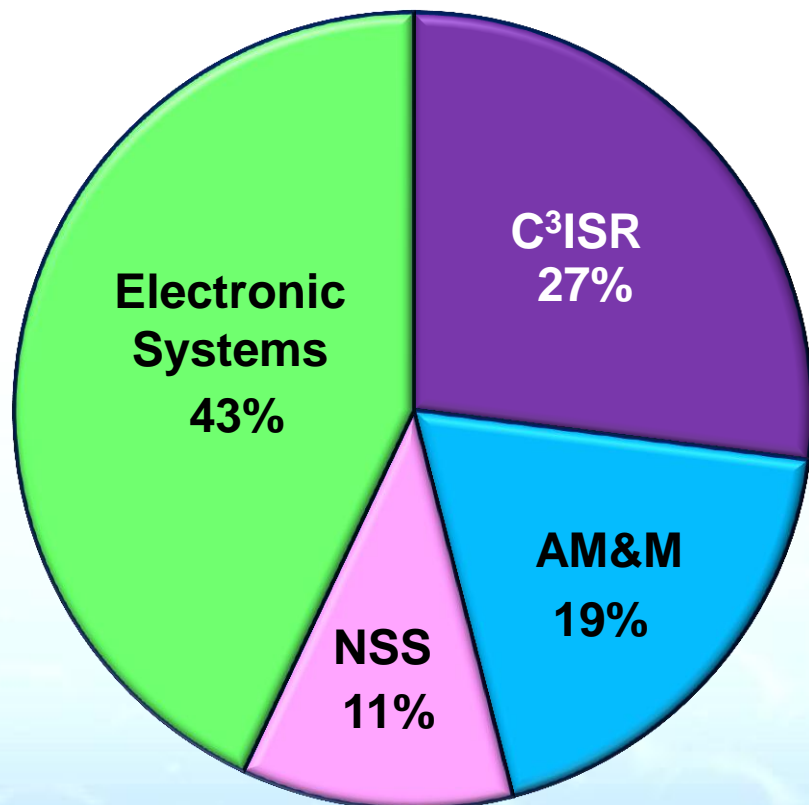
Segment	Net Sales	Midpoint Sales Growth vs. 2011	Operating Margin	Midpoint Margin Change vs. 2011 (bps)
Electronic Systems	\$5,650 to \$5,700	1%	11.8% to 11.9%	-100 to -90
C <sup>3</sup> ISR	\$3,500 to \$3,550	1%	10.3% to 10.4%	-100 to -90
AM&M	\$2,450 to \$2,500	1%	9.1% to 9.2%	-30 to -20
NSS	\$1,350 to \$1,400	-15%	5.9% to 6.0%	-30 to -20
<b>Consolidated</b>	<b>\$13,000 to \$13,100</b>	<b>-1%</b>	<b>10.3%</b>	<b>-70</b>

Notes: (1) Higher pension expense for 2012 vs. 2011 is estimated to reduce 2012 operating income by \$38M, consolidated margin by 30 bps, C<sup>3</sup>ISR by 70 bps, AM&M by 30 bps and Electronic Systems by 10 bps.

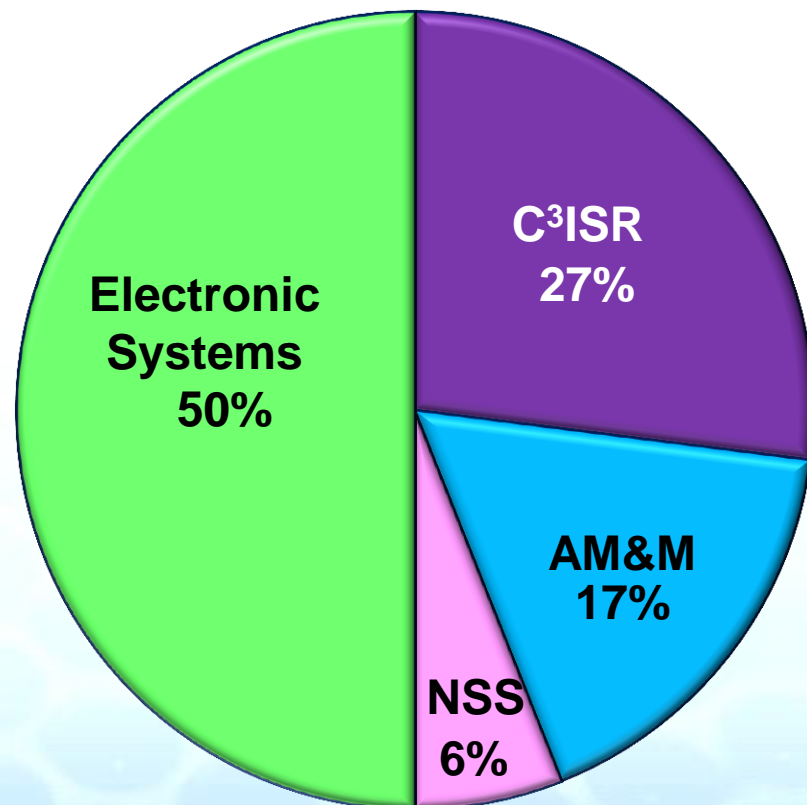
(2) 2011 excludes a goodwill impairment charge of \$43M.

# Segment Mix: 2012 Guidance Midpoints

Net Sales



Operating Income



# 2012 Segment Guidance - Current vs. Prior

(\$ in Millions)

Segment	Current Guidance (Nov. 1, 2012)		Prior Guidance (July 26, 2012)	
	Sales	Operating Margin	Sales	Operating Margin
Electronic Systems	\$5,650 to \$5,700	11.8% to 11.9%	\$5,650 to \$5,750	12.1% to 12.3%
C <sup>3</sup> ISR	\$3,500 to \$3,550	10.3% to 10.4%	\$3,500 to \$3,600	10.2% to 10.4%
AM&M	\$2,450 to \$2,500	9.1% to 9.2%	\$2,400 to \$2,500	8.5% to 8.7%
NSS	\$1,350 to \$1,400	5.9% to 6.0%	\$1,300 to \$1,400	6.6% to 6.8%
<b>Consolidated</b>	<b>\$13,000 to \$13,100</b>	<b>10.3%</b>	<b>\$12,950 to \$13,150</b>	<b>10.3%</b>



# Cash Flow Data



# Cash Flow

(\$ in Millions)	3Q12 Actual	3Q11 Actual	9M12 Actual	9M11 Actual	2012 Guidance	2011 Actual
Net income	\$ 195	\$ 214	\$ 573	\$ 610	\$ 770	\$ 864
Impairment charges	3	-	3	-	3	57
Depreciation & amortization	54	55	165	169	225	230
Deferred income taxes	15	27	50	80	60	124
401k common stock match	36	25	104	89	130	113
Stock-based compensation	15	15	44	47	58	57
Working capital / other	34	51	(247)	(246)	(16)	(214)
Cash flow from operating activities	\$ 352	\$ 387	\$ 692	\$ 749	\$ 1,230	\$ 1,231
Capital expenditures, net	(43)	(47)	(118)	(119)	(185)	(181)
<b>Free cash flow</b>	<b>\$ 309</b>	<b>\$ 340</b>	<b>\$ 574</b>	<b>\$ 630</b>	<b>\$ 1,045</b>	<b>\$ 1,050</b>

Note: Free cash flow includes income tax payments attributable to discontinued operations of \$8 million for 3Q12, \$14 million for 3Q11, \$24 million for 9M12, \$46 million for 9M11, and \$63 million for 2011. However, the 2012 Guidance excludes \$24M of income tax payments attributable to discontinued operations.

# Supplemental Cash Flow Data

(\$ in Millions)

			9 Months		2012 Estimate	2011 Actual
	3Q12 Actual	3Q11 Actual	2012 Actual	2011 Actual		
Cash interest payments	\$ 51	\$ 49	\$ 152	\$ 171	\$ 197	\$ 238
Income tax payments, net <sup>(1)</sup>	80	17	232	192	300	267
FAS pension expense <sup>(2)</sup>	45	31	134	110	178 <sup>(3)</sup>	145
CAS pension cost <sup>(4)</sup>	32	33	94	98	126	131
Pension contributions	47	59	138	148	174	176

- Notes:
- (1) Income tax payments include income tax payments attributable to discontinued operations of \$8M for 3Q12, \$14M for 3Q11, \$24M for 9M12, \$46M for 9M11, and \$63 million for 2011. The 2012 Estimate excludes income tax payments attributable to discontinued operations.
  - (2) FAS pension expense represents pension expense determined using U.S. GAAP and is based on a 5.02% discount rate (vs. 5.57% at 12/31/11) and a 2011 actual pension asset return of 3.6% vs. 8.55% (2011 assumption).
  - (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.
  - (4) **Estimated 2012 Pension Expense Sensitivity:** A 1% increase/decrease in 2011 pension asset return would have decreased/increased 2012 pension expense by \$3M and decreased/increased the 12/31/11 unfunded obligation by \$17M. A 25 bps increase/decrease in the 12/31/11 discount rate would have decreased/increased 2012 pension expense by \$12M and decreased/increased the 12/31/11 unfunded obligation by approximately \$90M.





# Cash Sources and Uses, and Capitalization and Leverage

# Cash Sources and Uses

(\$ in Millions)

	3Q12 Actual	3Q11 Actual	9M12 Actual	9M11 Actual	2012 Guidance	2011 Actual
Beginning cash	\$ 481	\$ 548	\$ 764	\$ 607	\$ 764	\$ 607
Free cash flow from continuing ops.	309	340	574	630	1,045	1,053
Free cash flow from discontinued ops.	7	76	74	230	74	245
Engility spin dividend, gross	335	-	335	-	335	-
Acquisitions, net	(133)	-	(349)	(15)	(349)	(19)
Dividends	(51)	(46)	(149)	(143)	(195)	(188)
Share repurchases	(189)	(371)	(504)	(800)	(875)	(958)
Debt repayments	(250)	-	(250)	(11)	(500)	(11)
Other, net	5	(9)	19	40	21	35
Ending cash	\$ 514	\$ 538	\$ 514	\$ 538	\$ 320	\$ 764

Notes: Free cash flow from continuing operations includes Income tax payments attributable to discontinued operations of \$8M for 3Q12, \$14M for 3Q11, \$24M for 9M12, \$46M for 9M11, and \$63 million for 2011.



# Capitalization and Leverage

(\$ in Millions)

	9/28/12 Actual	12/31/11 Actual
Cash	\$514	\$764
Debt	\$3,878	\$4,125
Equity	5,842	6,724
Invested Capital	\$9,720	\$10,849
Debt/Invested Capital	39.9%	38.0%
Bank Leverage Ratio	2.02x	2.11x
Available Revolver	\$997	\$997

Note: Equity includes non-controlling interests (minority interests) of \$76M as of September 28, 2012 and \$89M as of December 31, 2011.

# Appendix

# Debt Balances and Maturities

(\$ in Millions)

	9/28/12 Actual	Type	Maturity Date	Redemption Premium
<b>Senior:</b>				
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
<b>Subordinated:</b>				
6-3/8% Notes	250	fixed	10/15/15	1.063%
3% CODES	689	fixed	8/1/35	0%
Unamortized Discounts	(11)			
<b>Total</b>	<b>\$ 3,878</b>			

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 \$92.17.

(2) The remaining \$250M of the 6-3/8% sub. notes were redeemed on October 15, 2012.

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



# Supplemental Segment Data

(\$ in Millions)

	Previous Presentation			Reclassification			Revised Presentation		
	2011	9M11	3Q11	2011	9M11	3Q11	2011	9M11	3Q11
<b>Sales:</b>									
Electronic Systems	\$ 5,540	\$ 4,018	\$ 1,369	\$ 88	\$ 55	\$ 17	\$ 5,628	\$ 4,073	\$ 1,386
C <sup>3</sup> ISR	3,568	2,522	892	(88)	(55)	(17)	3,480	2,467	875
AM&M	2,440	1,825	623	-	-	-	2,440	1,825	623
NSS	1,610	1,250	417	-	-	-	1,610	1,250	417
Consolidated	<u>\$ 13,158</u>	<u>\$ 9,615</u>	<u>\$ 3,301</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,158</u>	<u>\$ 9,615</u>	<u>\$ 3,301</u>
<b>Operating Margin:</b>									
Electronic Systems	12.8%	12.5%	12.0%				12.8%	12.4%	12.0%
C <sup>3</sup> ISR	11.3%	11.3%	11.5%				11.3%	11.5%	11.4%
AM&M	9.4%	9.9%	9.7%				9.4%	9.9%	9.7%
NSS	6.2%	6.1%	7.8%				6.2%	6.1%	7.8%
Consolidated	10.9%	10.9%	10.9%				10.9%	10.9%	10.9%

Note: 2011 excludes non-cash goodwill impairment charge of \$43M.



# Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	2012 Guidance	9M12 Actual	3Q12 Actual	2011 Actual	9M11 Actual	3Q11 Actual
Net cash from operating activities	\$ 1,230	\$ 692	\$ 352	\$ 1,234	\$ 749	\$ 387
Less: Capital expenditures	(192)	(124)	(48)	(187)	(124)	(51)
Add: Dispositions of property, plant and equipment	7	6	5	6	5	4
Free cash flow	<u>\$ 1,045</u>	<u>\$ 574</u>	<u>\$ 309</u>	<u>\$ 1,053</u>	<u>\$ 630</u>	<u>\$ 340</u>

Note: Free cash flow from continuing operations includes income tax payments attributable to discontinued operations of \$8M for 3Q12, \$14M for 3Q11, \$24M for 9M12, \$46M for 9M11, and \$63 million for 2011.

