

Fourth Quarter Earnings Call January 30, 2014

Financial Data Charts



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: 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.

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" 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.



Fourth Quarter Results



Select Financial Data - Fourth Quarter

(\$ in Millions, except per share amounts)

	4Q13	4Q12	vs. 4Q12
Sales	\$3,256	\$3,560	-9%
Operating Margin	10.0%	10.2%	-20 bps
Operating Income	\$324	\$364	-11%
Interest Expense	\$46	\$46	n.c.
Interest and Other Income, Net	\$4	\$2	n.m.
Debt Retirement Charge	\$0	\$5	n.m.
Tax Rate	29.4%	31.7%	-230 bps
Diluted Shares	90.5	94.3	-4%
Diluted Earnings Per Share (EPS) from Continuing Operations	\$2.17	\$2.25	-4%
Net Cash from Operating Activities	\$646	\$539	20%
Free Cash Flow	\$586	\$452	30%

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

n.c. = no change
n.m. = not meaningful



Segment Results - Fourth Quarter

(\$ in Millions)

<u>Segment</u>	<u>4Q13 Sales</u>	<u>Sales Growth vs. 4Q12</u>	<u>4Q13 Operating Margin</u>	<u>Margin Change vs. 4Q12 (bps)</u>
C ³ ISR	\$ 846	-13%	9.1%	-40
Electronic Systems	1,484	-8%	11.9%	n.c.
P&LS	616	-2%	8.3%	-80
NSS	310	-11%	6.1%	-50
Consolidated	\$ 3,256	-9%	10.0%	-20

n.c. = no change



Full Year Results



Select Financial Data - Full Year

(\$ in Millions, except per share amounts)

	2013	2012	vs. 2012
Sales	\$12,629	\$13,146	-4%
Operating Margin	10.0%	10.3%	-30 bps
Operating Income	\$1,258	\$1,351	-7%
Interest Expense	\$177	\$184	-4%
Interest and Other Income, Net	\$15	\$8	n.m.
Debt Retirement Charge	\$0	\$13	n.m.
Tax Rate	28.2%	32.2%	-400 bps
Diluted Shares	91.1	97.6	-7%
Diluted EPS from Continuing Operations	\$8.54	\$8.01	7%
Net Cash from Operating Activities	\$1,263	\$1,231	3%
Free Cash Flow	\$1,066	\$1,050	2%

Notes: (1) The 2013 lower tax rate is primarily due to a tax benefit of \$33M for the U.S. Federal research and experimentation tax credit retroactively reinstated in 2013, of which \$17M relates to 2012.

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

n.m. = not meaningful



Segment Results - Full Year

(\$ in Millions)

<u>Segment</u>	<u>2013 Sales</u>	<u>Sales Growth vs. 2012</u>	<u>2013 Operating Margin</u>	<u>Margin Change vs. 2012 (bps)</u>
C ³ ISR	\$ 3,367	-7%	8.9%	-120
Electronic Systems	5,524	-3%	11.7%	-10
P&LS	2,443	-2%	9.3%	-20
NSS	1,295	-7%	6.6%	+90
Consolidated	\$12,629	-4%	10.0%	-30



2014 Financial Guidance



2014 Consolidated Financial Guidance

(\$ in Millions, except per share amounts)

	Current Guidance	Midpoint vs. 2013
Sales	\$11,900 to \$12,100	-5%
Operating margin	10.5%	+50 bps
Interest expense	\$176	-\$1
Interest and other income	\$14	-\$1
Effective tax rate	33.0%	+480 bps
Diluted shares	87.5	-4%
Diluted EPS	\$8.15 to \$8.35	-3%
Free cash flow	\$1,000	-6%

2014 Consolidated Financial Guidance Assumptions:

- (1) Lower pension expense vs. 2013 increases operating income by \$98M and operating margin by 80 bps.
- (2) The U.S. Federal research and experimentation tax credit that expired on December 31, 2013, is not extended, which increases the effective tax rate by 130 basis points and reduces diluted EPS by \$0.16.
- (3) Share repurchases of \$500M.
- (4) See Reconciliation of GAAP to Non-GAAP Measurements.

n.m. = not meaningful



2014 Segment Guidance

(\$ in Millions)

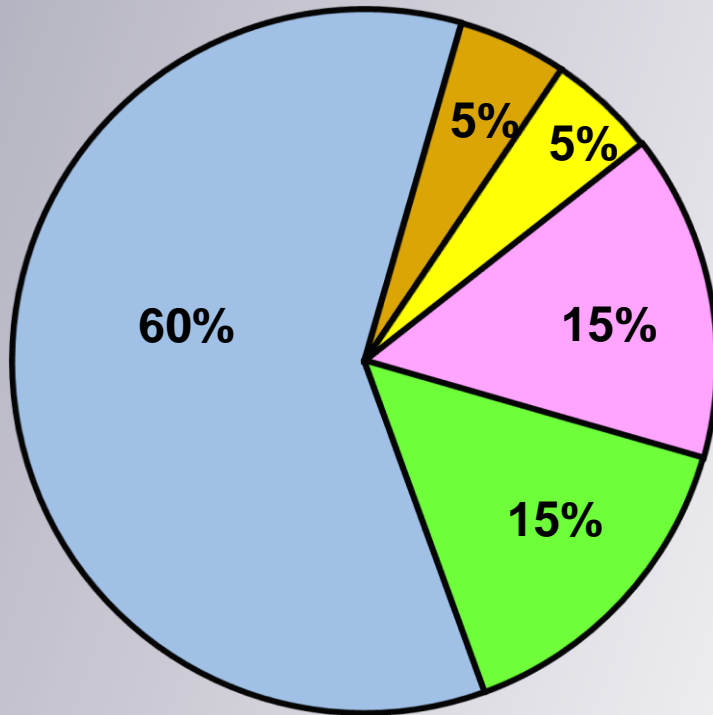
<u>Segment</u>	<u>Sales</u>	<u>Midpoint Sales vs. 2013</u>	<u>Operating Margin</u>	<u>Midpoint Margin vs. 2013 (bps)</u>	<u>Lower Pension Margin Impact * (bps)</u>
C ³ ISR	\$3,075 to \$3,175	-7%	11.2% to 11.4%	+240	+160
Elect Systems	\$5,275 to \$5,375	-4%	11.0% to 11.2%	-60	+70
P&LS	\$2,350 to \$2,450	-2%	9.5% to 9.7%	+30	+30
NSS	\$1,100 to \$1,200	-11%	7.3% to 7.5%	+80	+10
L-3 Consolidated	\$11,900 to \$12,100	-5%	10.5%	+50	+80

* Represents the increase to 2014 operating margin due to lower estimated pension expense (FAS net of CAS) of \$98M (\$51M for C³ISR, \$38M for P&LS, \$8M for Electronic Systems, and \$1M for NSS).

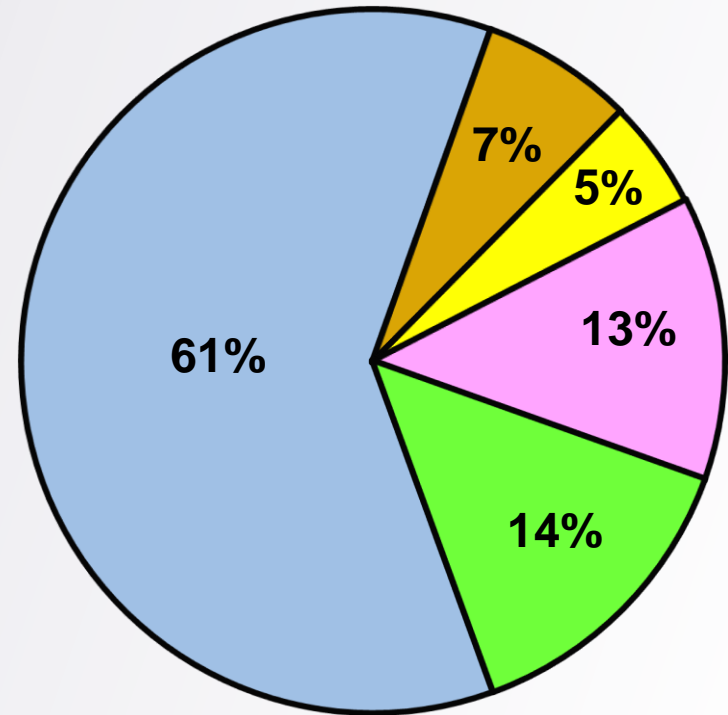


End Customer Sales Mix Trends

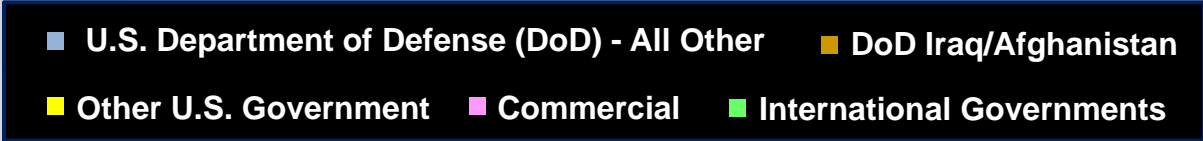
2014 Estimate



2013 Actual

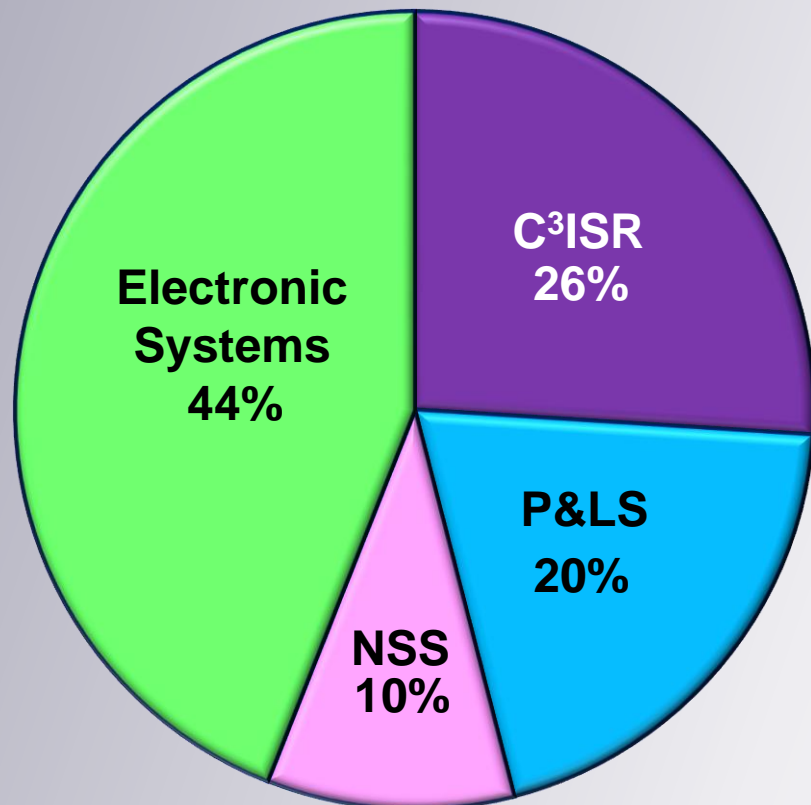


Direct to End Customer = 68%
Indirect to End Customer = 32%

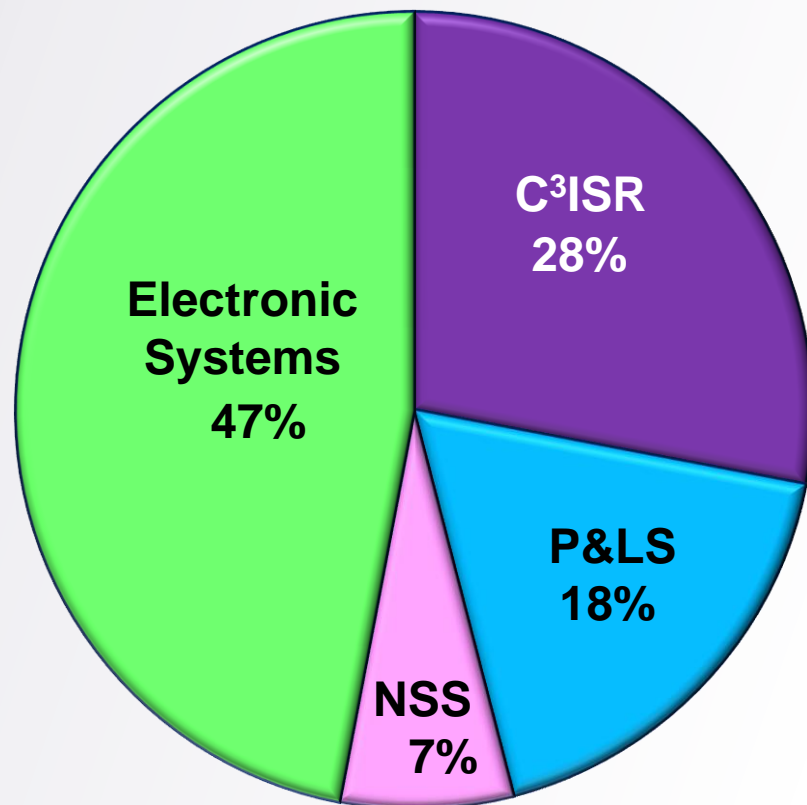


Segment Mix: 2014 Guidance Midpoints

Sales



Operating Income



Cash Flow Data



Free Cash Flow

(\$ in Millions)

	2014 <u>Guidance</u>	2013 <u>Actual</u>	2012 <u>Actual</u>
Income from continuing operations	\$ 730	\$ 787	\$ 788
Depreciation & amortization	222	214	228
Deferred income taxes	90	29	112
401K common stock match	115	114	125
Stock-based employee compensation	59	59	59
Amortization of pension and OPEB net losses	18	83	68
Working capital/other items	(39)	(23)	(149)
Capital expenditures, net	(195)	(197)	(205)
Income tax payments attributable to discontinued operations	-	-	24
Free cash flow	<u><u>\$ 1,000</u></u>	<u><u>\$ 1,066</u></u>	<u><u>\$ 1,050</u></u>

Robust Cash Flow



Supplemental Cash Flow Data

(\$ in Millions)

	<u>2014 Guidance</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
Cash interest payments	\$ 169	\$ 171	\$ 198
Income tax payments, net ⁽¹⁾	270	226	289
FAS pension expense	80 ^{(2) (3)}	181	179
CAS pension cost ⁽⁴⁾	114	117	126
Pension contributions	108	105	173

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

(2) 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%.

(3) 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.

(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	
	4Q13	2013	4Q13	2013	4Q12	2012	4Q12	2012
C ³ ISR	\$ 12	\$ 45	\$ 26	\$ 72	\$ 13	\$ 47	\$ 45	\$ 90
Electronic Systems	36	141	25	92	42	147	34	95
P&LS	5	17	6	26	5	20	6	15
NSS	3	11	3	7	3	14	2	5
Consolidated	\$ 56	\$214	\$ 60	\$197	\$ 63	\$228	\$ 87	\$205

D&A = Depreciation and Amortization

CapEx, Net = 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>2014 Guidance</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
Beginning cash	\$ 500	\$ 349	\$ 764
Free cash flow from continuing ops.	1,000	1,066	1,050
Cash flow from discontinued ops.	-	-	50
Engility spin dividend, gross	-	-	335
Acquisitions, net	-	(58)	(343)
Dividends	(207)	(199)	(195)
Share repurchases	(500)	(800)	(872)
Debt repayments	-	-	(500)
Other, net	27	142	60
Ending cash	<u>\$ 820</u>	<u>\$ 500</u>	<u>\$ 349</u>

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



Capitalization and Leverage

(\$ in Millions)

	12/31/13 Actual	12/31/12 Actual
Cash	\$500	\$349
Debt	\$3,630	\$3,629
Equity	6,101	5,543
Invested Capital	\$9,731	\$9,172
Debt/Invested Capital	37.3%	39.6%
Bank Leverage Ratio	2.09x	2.04x
Available Revolver	\$1,000	\$1,000

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



Appendix



Debt Balances and Maturities

(\$ in Millions)

	<u>12/31/13 Actual</u>	<u>Type</u>	<u>Maturity Date</u>	<u>Redemption Premium</u>
<u>Senior:</u>				
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
<u>Subordinated:</u>				
3% CODES	689	fixed	8/1/35	0%
Unamortized Discounts	(9)			
Total	\$ 3,630			

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 \$90.24.

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



Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2014 Guidance</u>	<u>2013 Actual</u>	<u>4Q13 Actual</u>	<u>2012 Actual</u>	<u>4Q12 Actual</u>
Net cash from operating activities	\$1,195	\$1,263	\$ 646	\$1,231	\$ 539
Less: Capital expenditures	(200)	(209)	(62)	(210)	(86)
Add: Dispositions of property, plant and equipment	5	12	2	5	(1)
Income tax payments attributable to discontinued operations	-	-	-	24	-
Free cash flow	<u>\$1,000</u>	<u>\$1,066</u>	<u>\$ 586</u>	<u>\$1,050</u>	<u>\$ 452</u>

