

1Q09 Earnings Call

April 23, 2009



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.

1Q09 Actual Results



1Q09 Select Financial Data

(\$ in Millions, except per share amounts)

	<u>1Q09 Actual</u>	<u>1Q08 Actual</u>	<u>1Q09 vs 1Q08</u>	<u>1Q09 vs 1Q08 Excluding Higher Pension Expense</u>
Sales	\$3,636	\$3,506	4%	
Operating Margin %	10.3%	10.5%	-20 bpts	+40 bpts
Operating Income	\$376	\$368	2%	7%
Interest Expense, Net	\$63	\$68	-7%	
Tax Rate	35.8%	36.0%	-20 bpts	
Diluted Shares	118.8	124.1	-4%	
Diluted Earnings Per Share (EPS)	\$1.66	\$1.51	10%	17%
Free Cash Flow	\$112	\$55	104%	

Note: 1Q08 has been adjusted to retrospectively apply the provisions of certain new accounting standards that were adopted effective January 1, 2009. See Supplemental Select Financial Data slide for the 1Q08 select financial data: (i) As Previously Reported (ii) Adjustments for certain new accounting standards and (iii) As Currently Reported results.



1Q09 Segment Results

(\$ in Millions)

<u>Segment</u>	<u>Sales</u>	<u>Sales Growth vs 1Q08</u>	<u>Operating Margin</u>	<u>Margin Change vs 1Q08 (bpts)</u>	<u>Margin Change Excluding Higher Pension (bpts)</u>
C ³ ISR	\$ 710	28%	11.0%	-20	+80
Gov't Services	1,005	-9%	9.0%	n.c.	n.c.
AM&M	664	-	9.9%	n.c.	+20
Spec Products	1,257	7%	11.2%	-70	+20
Consolidated	\$ 3,636	4%	10.3%	-20	+40

Note: During 1Q09, segment presentations were revised to conform to certain re-alignments in the company's management and organization structure. Consequently, certain reclassifications were made between the C³ISR, Government Services and AM&M segments for 1Q08. See the Supplemental Segment Data slide which presents: (i) previous segment data presentation, (ii) reclassifications to the respective segments and (iii) revised segment data presentations.



2009 Financial Guidance



2009 Financial Guidance

(\$ in Billions, except per share amounts)

	Current Guidance (Apr. 23, 2009)	Prior Guidance (Jan. 29, 2009)
Sales	\$15.5 to \$15.7	\$15.5 to \$15.7
Operating Margin	10.4%	10.4%
Tax Rate	36.0%	36.0%
Diluted EPS	\$7.17 to \$7.32	\$7.12 to \$7.32
Net Cash from Operating Activities	\$1.43	\$1.40
Less: CapEx, net of Dispositions	(\$0.23)	(\$0.20)
Free Cash Flow	\$1.20	\$1.20

Diluted EPS Reconciliation

	2009 Guidance	2008 Actual	Change
GAAP EPS	\$7.17 to \$7.32	\$7.59	-6% to -4%
2008 Items		(0.74)	
EPS excluding 2008 Items	\$7.17 to \$7.32	\$6.85	5% to 7%
Excluding: Higher 2009 Pension Expense	0.39		
Excluding: Higher 2009 Tax Rate	0.10		
Adjusted EPS	\$7.66 to \$7.81	\$6.85	12% to 14%

- Notes: (1) 2008 GAAP EPS decreased by \$0.13 from an As Previously Reported \$7.72 to an As Currently Reported \$7.59 to retrospectively apply the provisions of certain new accounting standards that were adopted effective January 1, 2009.
- (2) 2008 Items are comprised of: (i) 2Q 2008 Items that include a litigation gain of \$133M (\$0.66 per share), a product line divestiture gain of \$12M (\$0.06 per share) and an impairment charge of \$28M (\$0.14 per share), and (ii) a 4Q 2008 gain of \$33M (\$0.16 per share) for the divestiture of a business.
- (3) Higher pension expense is expected to reduce operating income by \$72M (\$0.39 per share).



2009 Segment Guidance

(\$ in Billions)

Segment	Sales	Midpoint Sales Growth vs 2008	Operating Margin	Midpoint Margin Change vs 2008 (bpts)	Midpoint Margin Change Excluding Higher Pension Expense (bpts)
C ³ ISR	\$2.8 to \$2.9	12%	10.4% to 10.6%	+90	+190
Gov't Services	\$4.3 to \$4.4	1%	9.8% to 10.0%	n.c.	n.c.
AM&M	\$2.7 to \$2.8	3%	9.0% to 9.2%	n.c.	+10
Spec Products	\$5.7 to \$5.8	7%	11.4% to 11.6%	-80	-10
Consolidated	\$15.5 to \$15.7	5%	10.4%	-20	+30

Notes: (1) Margin Change excludes 2Q 2008 Items (litigation gain of \$126M, a product line divestiture gain of \$12M and an impairment charge of \$28M).

(2) During 1Q09, segment presentations were revised to confirm to certain re-alignments in the company's management and organization structure. Consequently, certain reclassifications were made between the C³ISR, Government Services and AM&M segments for 2008. See the Supplemental Segment Data slide which presents: (i) previous segment data presentation, (ii) reclassifications to the respective segments and (iii) revised segment data presentations.



2009 Segment Guidance - Current vs Prior

(\$ in Billions)

Segment	Current Guidance		Prior Guidance	
	Sales	Operating Margin	Sales	Operating Margin
C ³ ISR	\$2.8 to \$2.9	10.4% to 10.6%	\$2.7 to \$2.8	10.2% to 10.4%
Gov't Services	\$4.3 to \$4.4	9.8% to 10.0%	\$4.4 to \$4.5	9.9% to 10.1%
AM&M	\$2.7 to \$2.8	9.0% to 9.2%	\$2.7 to \$2.8	9.0% to 9.2%
Spec Products	\$5.7 to \$5.8	11.4% to 11.6%	\$5.7 to \$5.8	11.4% to 11.6%
Consolidated	\$15.5 to \$15.7	10.4%	\$15.5 to \$15.7	10.4%



Free Cash Flow

(\$ in Millions)

	1Q09 Actual	1Q08 Actual	2009 Guidance	2008 Actual
Net income	\$ 201	\$ 192	\$ 874	\$ 949
Depreciation & amortization	53	51	235	206
Deferred taxes	14	26	65	153
Stock-based compensation	49	44	206	205
CODES non-cash interest	5	5	21	20
OSI litigation accrual	-	2	-	(131)
Working capital / other	(170)	(227)	24	(15)
Cash flow from operating activities	\$ 152	\$ 93	\$ 1,425	\$ 1,387
Capital expenditures, net	(40)	(38)	(225)	(203)
Free cash flow	\$ 112	\$ 55	\$ 1,200	\$ 1,184
Supplemental Data:				
Income tax payments, net	\$ 44	\$ 67	\$ 415	\$ 345
Pension expense	42	22	166	87
Pension contributions	2	2	65	162

Notes: (1) 2008 Deferred Taxes include an increase of \$52M for 2Q 2008 litigation gain and a decrease of \$11M for 2Q 2008 impairment charge.

(2) 2008 net income includes \$91M for the 2008 Items comprised of (i) \$71M for 2Q08 Items, and (ii) \$20M for a gain on the divestiture of a business.



Capitalization and Leverage

(\$ in Millions)

	<u>3/27/09</u> <u>Actual</u>	<u>12/31/08</u> <u>Actual</u>
Cash	<u>\$638</u>	<u>\$867</u>
Debt	\$4,499	\$4,493
Equity	<u>5,913</u>	<u>5,941</u>
Invested Capital	<u>\$10,412</u>	<u>\$10,434</u>

Debt / Invested Capital	43.2%	43.1%
Bank Leverage Ratio	2.2x	2.2x
Available Revolver	\$938	\$940

- Notes: (1) 2008 has been adjusted to retrospectively apply the provisions of certain new accounting standards that were adopted effective January 1, 2009. See Supplemental Capitalization slide for 12/31/08 capitalization: (i) As Previously Reported (ii) Adjustments for certain new accounting standards and (iii) As Currently Reported.
- (2) Term loans of \$650 which mature on March 9, 2010 are classified as current liabilities at 3/27/09.
- (3) Equity includes non-controlling interests (minority interests) of \$84M as of March 27, 2009 and \$83M as of December 31, 2008.

Debt Analysis

(\$ in Millions)

	<u>3/27/09 Actual</u>	<u>Type</u>	<u>Maturity Date</u>	<u>Next Redemption</u>	
				<u>Date</u>	<u>Premium</u>
<u>Senior:</u>					
Revolver	\$ -	Variable ⁽¹⁾	3/10	n.a.	
Term Loans	650	Variable ⁽¹⁾	3/10	n.a.	
<u>Subordinated:</u>					
3% CODES	\$ 700	fixed	8/35	2/11 ⁽²⁾	0%
7-5/8% Notes	750	fixed	6/12	6/08	2.542%
6-1/8% Notes	400	fixed	7/13	7/08	3.063%
6-1/8% Notes	400	fixed	1/14	1/09	3.063%
5-7/8% Notes	650	fixed	1/15	1/10	2.938%
6-3/8% Notes	1,000	fixed	10/15	10/10	3.188%
Unamortized Discounts	(51)				
Total	\$ 4,499				

Notes: (1) LIBOR +87.5 bpts.

(2) The contingent convertible notes (CODES) contain "puts" that holders can exercise on Feb 1, 2011, and every 5-year anniversary thereafter at a price of 100%.



Forward Looking Statements

Certain of the matters discussed in these slides 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 that are difficult to predict, 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; 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; 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 market; global economic uncertainty and continued tightening of the credit markets; our ability to perform contracts on schedule; events beyond our control such as acts of terrorism; our international operations; our extensive use of fixed-price type contracts as compared to cost-reimbursable 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; results of audits by U.S. Government agencies; anticipated cost savings from business acquisitions not fully realized or realized within the expected time frame; Titan’s compliance with its plea agreement and consent to entry of judgment with the U.S. Government relating to the Foreign Corrupt Practices Act (FCPA), including Titan’s ability to maintain its export licenses as well as the outcome of other FCPA matters; 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 other risks and uncertainties that could impair our results of operations or financial condition, see “Part I — Item 1A — Risk Factors” and Note 18 to our audited consolidated financial statements, included in our Annual Report on Form 10-K for the year ended Dec. 31, 2008. 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.

1Q08 Supplemental Select Financial Data

(\$ in Millions, except per share amounts)

	As Previously Reported	Adjustments for:			As Currently Reported
		SFAS 160	FSP EITF 03-6-1	FSP APB 14-1	
Sales	\$3,506	-	-	-	\$3,506
Operating Margin %	10.5%	-	-	-	10.5%
Operating Income	\$368	-	-	-	\$368
Interest Expense, Net	\$63	-	-	5	\$68
Tax Rate	36.5%	-0.4%	-	-0.1%	36.0%
Diluted Shares	124.5	-	(0.4)	-	\$124.1
Diluted Earnings Per Share	\$1.54	-	(0.01)	(0.02)	\$1.51
Free Cash Flow	\$55	-	-	-	\$55

Supplemental Capitalization at 12/31/08

(\$ in Millions)

	<u>As Previously Reported</u>	<u>Adjustments for:</u>		<u>As Currently Reported</u>
		<u>SFAS 160</u>	<u>FSP APB 14-1</u>	
Cash	<u>\$ 867</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 867</u>
Debt	\$ 4,538	\$ -	\$ (45)	\$ 4,493
Minority Interest	83	(83)	-	-
Equity	5,831	83	27	5,941
Invested Capital	<u>\$ 10,452</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>\$10,434</u>

Supplemental Segment Data

(\$ in Millions)

	<u>Previous Presentation</u>		<u>Reclassifications</u>		<u>Revised Presentation</u>	
	<u>2008</u>	<u>1Q08</u>	<u>2008</u>	<u>1Q08</u>	<u>2008</u>	<u>1Q08</u>
<u>Sales:</u>						
C ³ ISR	\$ 2,567	\$ 566	\$ (30)	\$ (13)	\$ 2,537	\$ 553
Gov't Services	4,303	1,105	14	3	4,317	1,108
AM&M	2,657	655	16	10	2,673	665
Spec Products	5,374	1,180	-	-	5,374	1,180
Consolidated	<u>\$14,901</u>	<u>\$3,506</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$14,901</u>	<u>\$3,506</u>

Operating Margin:

C ³ ISR	9.8%	11.2%			9.6%	11.2%
Gov't Services	9.8%	9.0%			9.9%	9.0%
AM&M	9.1%	9.9%			9.1%	9.9%
Spec Products	12.0%	11.9%			12.0%	11.9%
Consolidated	10.5%	10.5%			10.5%	10.5%



Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions, except per share data)

	<u>2009 Guidance</u>	<u>1Q09 Actual</u>	<u>2008 Actual</u>	<u>1Q08 Actual</u>
Consolidated Operating Margin			11.3%	
Add: Impairment Charge			0.2%	
Less: Litigation Gain			-0.8%	
Product Line Divestiture Gain			-0.1%	
Consolidated Operating Margin, Excluding Items			<u>10.6%</u>	
Specialized Products Operating Margin			12.0%	
Add: Impairment Charge			0.5%	
Less: Product Line Divestiture Gain			-0.2%	
Specialized Products Operating Margin, Excluding Items			<u>12.3%</u>	
Net cash from operating activities	\$ 1,425	\$ 152	\$ 1,387	\$ 93
Less: Capital expenditures	(235)	(41)	(218)	(38)
Add: Dispositions of property, plant and equipment	<u>10</u>	<u>1</u>	<u>15</u>	<u>-</u>
Free cash flow	<u>\$ 1,200</u>	<u>\$ 112</u>	<u>\$ 1,184</u>	<u>\$ 55</u>

