

# ***2014 Investor Conference Financial Review***

**March 25, 2014**



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**Senior Vice President &  
Chief Financial Officer**

# 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 awards and/or funding from the Department of Defense (DoD) and other major customers; the U.S. Government fiscal situation; changes in DoD budget levels and spending priorities; 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 Better Buying Power and other 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 revenue arrangements; 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, 2013, 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.

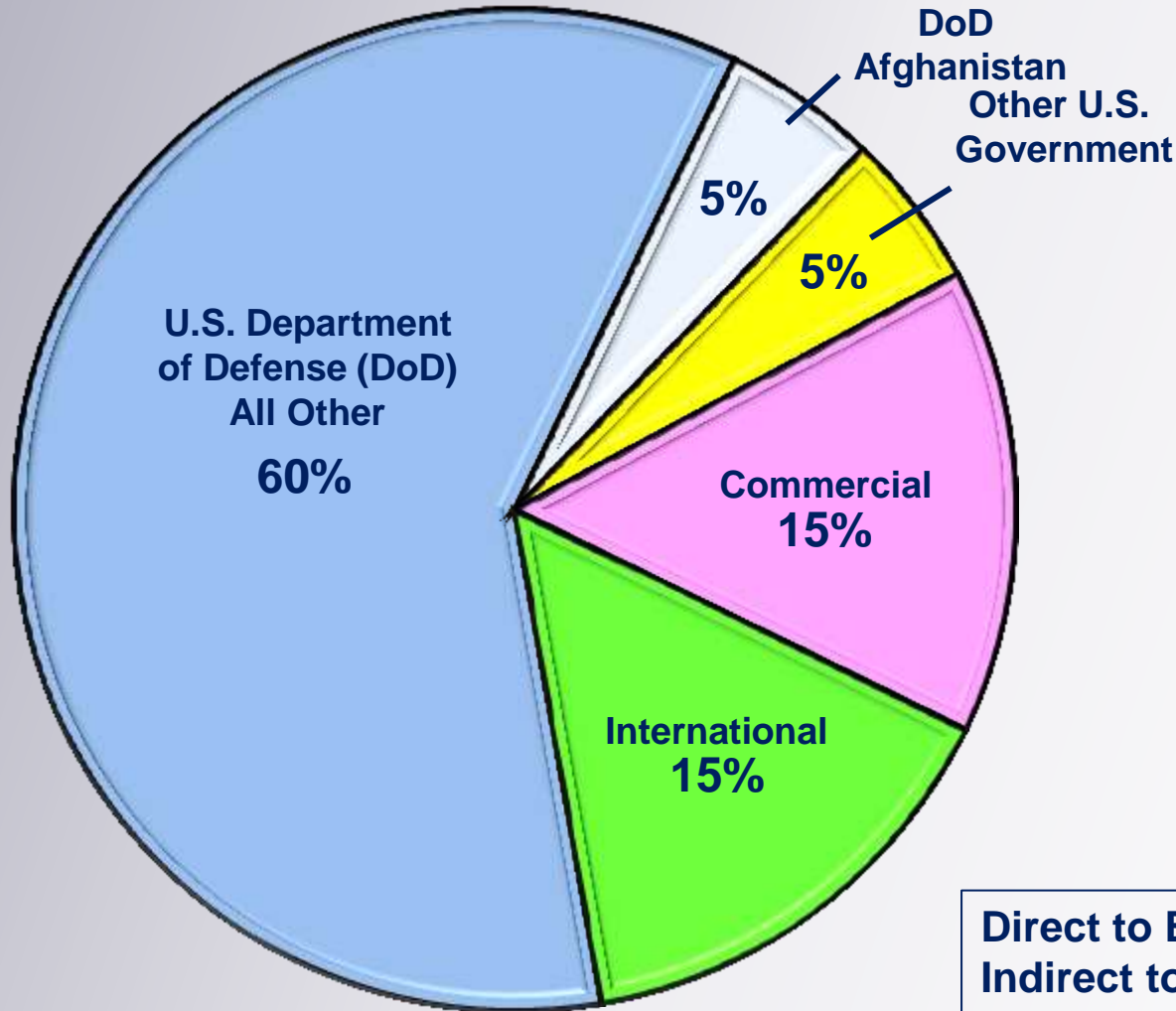


# 2014 Financial Trends

- International & Commercial growing
- DoD declining ~10%...lower budgets, sequester, drawdown
- Margin improving...lower pension...some mix pressure
- Higher tax rate...no federal R&E credit
- Solid cash flow...strong balance sheet
- DoD base budgets at trough...flat FY13-15

***L-3: healthy...progressing through DoD down-cycle***

# 2014 Sales Mix Estimates



<u>DoD Armed Services</u>	
USAF	27%
Army	16%
Navy	13%
Other	<u>9%</u>
<b>Total</b>	<b>65%</b>

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



# DoD Budget Trends (with Full Sequester)

(\$ in Billions)

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
<b>Base</b>	\$ 528	\$ 530	\$ 496	\$ 496	\$ 496	\$ 500	\$ 513	\$ 524	\$ 537
<b>OCO</b>	\$ 159	\$ 115	\$ 82	\$ 85	\$ 79	\$ 30	\$ 30	\$ 30	\$ 30
<b>Total</b>	\$ 687	\$ 645	\$ 578	\$ 581	\$ 575	\$ 530	\$ 543	\$ 554	\$ 567
<b>Base vs Prior FY</b>	0%	0%	-6%	0%	0%	1%	3%	2%	2%
<b>OCO vs Prior FY</b>	-2%	-28%	-29%	4%	-7%	-62%	0%	0%	0%
<b>Total vs Prior FY</b>	0%	-6%	-10%	1%	-1%	-8%	2%	2%	2%

***Outlook improving***

- Notes: (1) FY12-14 based on enacted budgets. FY15-19 based on the FY15 Proposed Budget Request (PBR) announced by the Obama Administration on March 4, 2014. FY15 excludes the unfunded OGS initiatives of \$26 billion.  
 (2) FY16-19 base budgets exclude amounts above the DoD Sequester caps (\$35B FY16, \$31B FY17, \$27B FY18, \$22B FY19).  
 (3) OCO budgets for FY15 to FY19 DoD are placeholders.



# 2014 Consolidated Guidance

(\$ in Millions, except per share amounts)

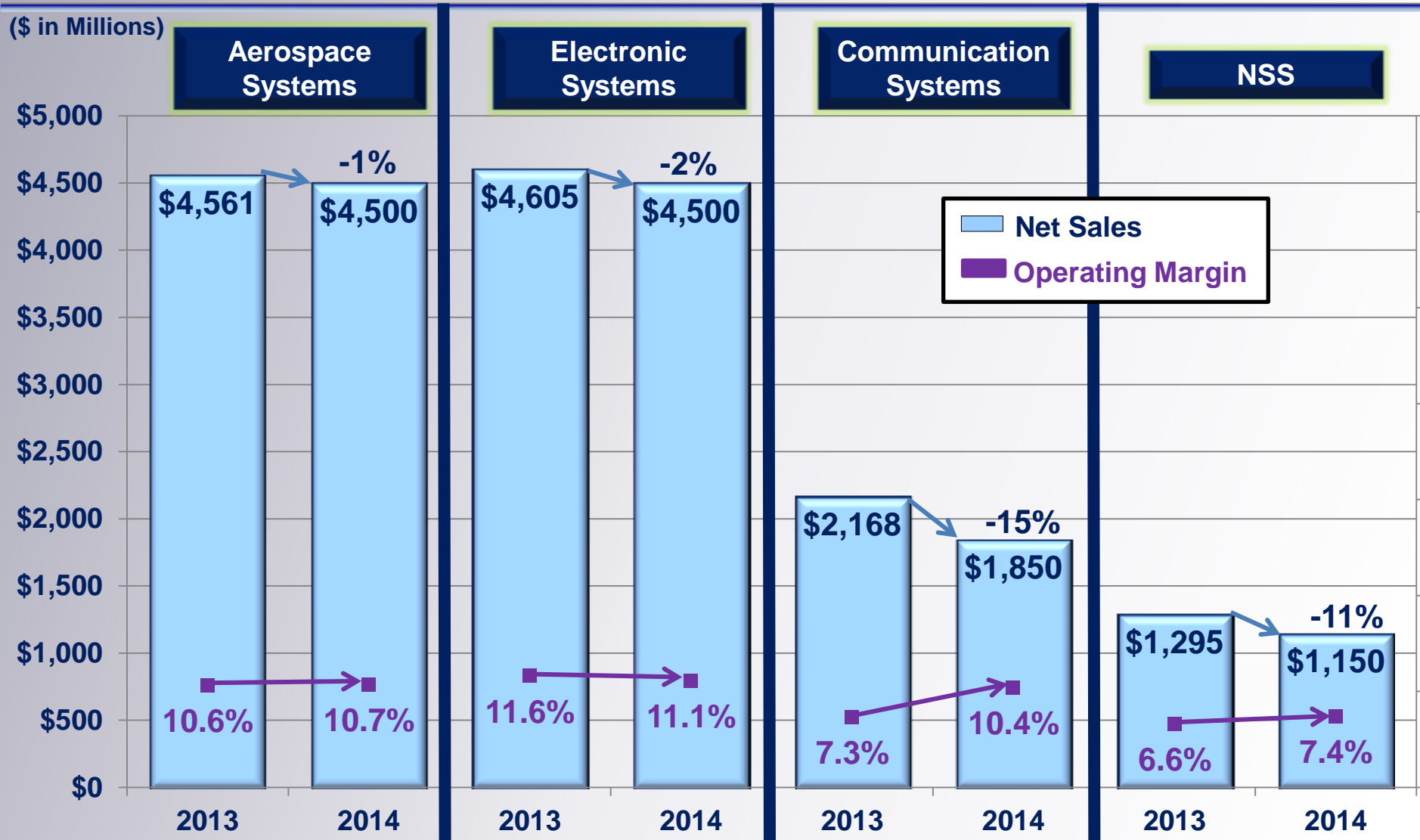
	<b>Guidance (January 30, 2014)</b>	<b>Midpoint vs. 2013</b>
<b>Sales</b>	<b>\$11,900 to \$12,100</b>	<b>-5%</b>
<b>Operating margin</b>	<b>10.5%</b>	<b>+50 bps</b>
<b>Interest expense</b>	<b>\$176</b>	<b>-\$1</b>
<b>Interest and other income</b>	<b>\$14</b>	<b>-\$1</b>
<b>Effective tax rate</b>	<b>33.0%</b>	<b>+480 bps</b>
<b>Diluted shares</b>	<b>87.5</b>	<b>-4%</b>
<b>Diluted EPS</b>	<b>\$8.15 to \$8.35</b>	<b>-3%</b>
<b>Free cash flow</b>	<b>\$1,000</b>	<b>-6%</b>

**2014 Consolidated Financial Guidance Assumptions:**

- (1) Lower pension expense vs. 2013 increases operating income by \$98 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, increasing tax rate by 130 basis points and reducing diluted EPS by \$0.16.
- (3) Share repurchases of \$500 million.
- (4) Excludes acquisition of Data Tactics Corporation which closed on March 4, 2014.
- (5) Excludes any potential non-cash goodwill impairment charges and debt redemption charges.
- (6) See Reconciliation of GAAP to Non-GAAP Measurements.



# 2014 Segment Guidance Midpoints



Note: Lower pension expense 2014 vs. 2013 increases operating income \$98 million and margin 80 bps (Aerospace Systems \$34 million or 80 bps, Electronic Systems \$32 million or 70 bps, Communication Systems \$31 million or 170 bps, and NSS \$1 million or 10 bps).



# Pension Expense and Funding Profile

(\$ in Millions)

<u>Pension</u>	<u>2013 Actual</u>	<u>2014 Guidance</u>	<u>2015 Projected</u>	<u>2016 Projected</u>
FAS Expense	\$ 181	\$ 80	\$ 71	\$ 67
CAS Cost	117	114	125	135
FAS, net CAS	\$ 64	\$ (34)	\$ (54)	\$ (68)

<b><i>Minimum ERISA Contributions</i></b>	<b>\$ 97</b>	<b>\$ 90</b>	<b>\$ 75</b>
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- Notes: (1) 2014 to 2016 FAS Expense assumes a 8.13% weighted average pension asset return and a 5.03% discount rate.  
 (2) 2014 FAS Expense discount rate sensitivity: 25 bps would change pension expense by \$10 million, and unfunded obligation liability by \$97 million.  
 (3) CAS Cost is expected to decrease by approximately 35% in 2017 vs. 2016.  
 (4) 2014 to 2017 estimates and projections are subject to revision due to actual future pension asset returns, discount rates, pension contributions and changes in actual assumptions.





# Free Cash Flow

(\$ in Millions)

	<b>2014 Guidance</b>	<b>2013 Actual</b>
Net income	\$ 730	\$ 787
Depreciation & amortization	222	214
Deferred income taxes	90	48
401K common stock match	115	114
Stock-based employee compensation	59	59
Amortization of pension and OPEB net losses	18	83
Working capital/other items	(39)	(42)
Capital expenditures, net	(195)	(197)
Free cash flow	<u>\$ 1,000</u>	<u>\$ 1,066</u>

***Robust Cash Flow...High Conversion Rate***



# Cash Sources and Uses

(\$ in Millions)

	2014 Guidance	2013 Actual
Beginning cash	\$ 500	\$ 349
Free cash flow	1,000	1,066
Dividends	(207)	(199)
Share repurchases	(500)	(800)
Acquisitions, net	-	(58)
Other, net	27	142
Ending cash	\$ 820	\$ 500

***Disciplined, Balanced Capital Allocation***

Notes: (1) 2014 Guidance does not include Data Tactics Corporation acquisition completed on March 4, 2014 for \$58 million.  
 (2) See Reconciliation of GAAP to Non-GAAP Measurements.



# Capitalization and Leverage

(\$ in Millions)

	12/31/14 Guidance	12/31/13 Actual	12/31/12 Actual
Cash	\$ 820	\$ 500	\$ 349
Debt	\$ 3,632	\$ 3,630	\$ 3,629
Equity	6,375	6,098	5,543
Book capitalization	\$ 10,007	\$ 9,728	\$ 9,172
Unfunded pension obligation	\$ 535	\$ 570	\$ 1,196
Available revolver	\$ 1,000	\$ 1,000	\$ 1,000

***Strong Balance Sheet, Liquidity and Credit Ratings***

Note: Equity includes minority interest liability.



# L-3 Summary

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- **International & commercial growing**
- **Adjusting to DoD sales declines**
- **Resizing businesses and reducing costs**
- **Margins increasing**
- **Generating robust cash flow**

***Healthy...progressing through DoD down-cycle***

# Supplemental Financial Data



# Net Sales End Customer Mix Trends

End Customer	2014 Estimate	2013 Actual	Net Sales 2014 vs. 2013
Air Force	27%	27%	-4%
Army	17%	19%	-18%
Navy/Marines	13%	14%	-13%
Other Defense	8%	8%	-6%
U.S. DoD	65%	68%	-10%
Other USG	5%	5%	5%
Foreign Gov't	15%	14%	5%
Commercial	15%	13%	5%
Total	100%	100%	-5%

Note: 2014 estimated net sales approximate 2014 Guidance Midpoints.



# Segments Re-alignment

## Old Segments

## Re-Alignment

## New Segments

**Electronic Systems**  
\$5,325M

**Electronic Systems  
(Less Microwave Products)**  
\$4,500M

**Electronic Systems**  
\$4,500M

**C3ISR**  
\$3,125M

**Microwave Products**  
\$825M

**Communication Systems**  
\$1,850M

**P&LS**  
\$2,400M

**Communication Systems**  
\$1,025M

**Aerospace Systems**  
\$4,500M

**NSS**  
\$1,150M

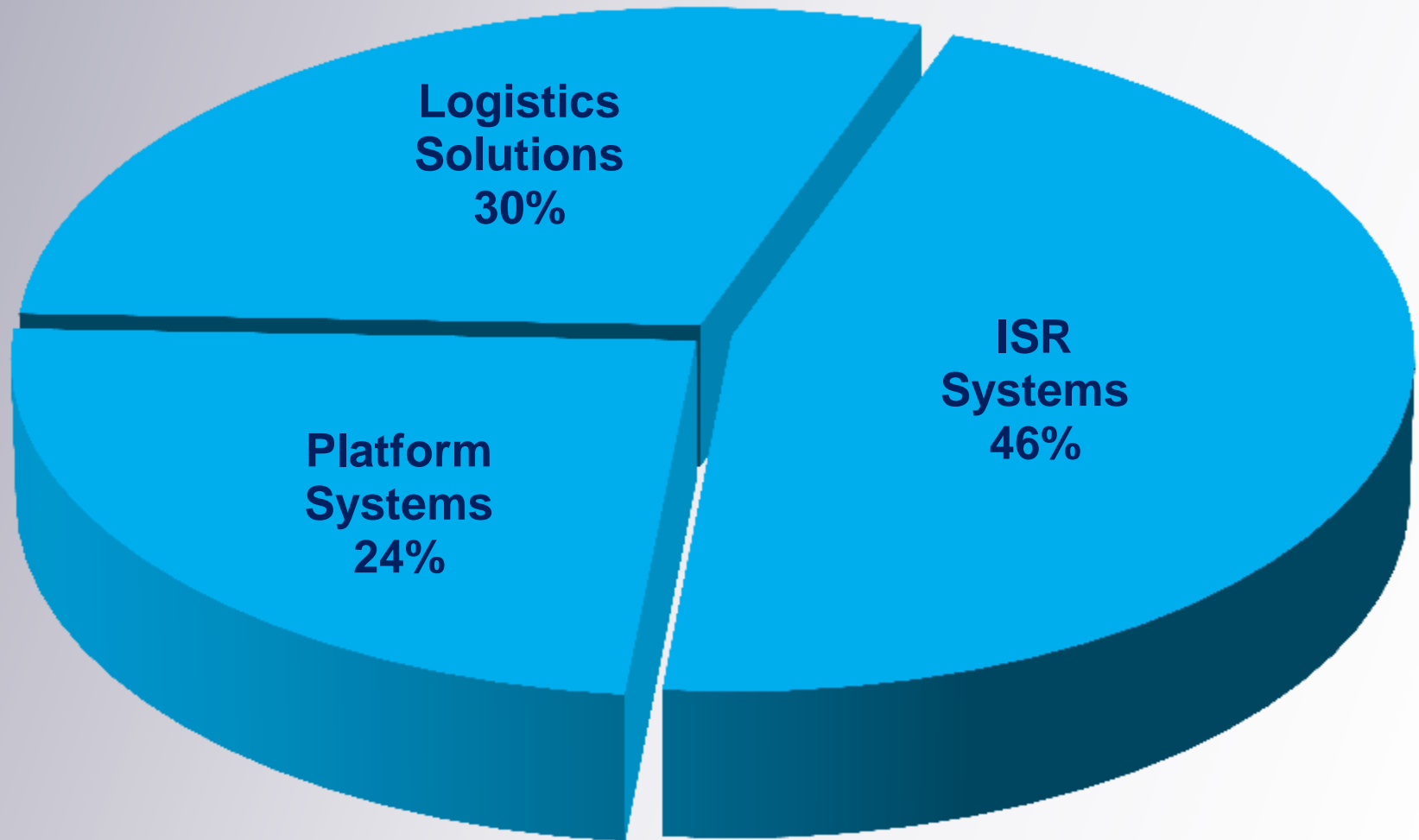
**ISR Systems**  
\$2,100M

**NSS**  
\$1,150M

Note: Amounts represent net sales 2014 Guidance Midpoints (January 30, 2014).



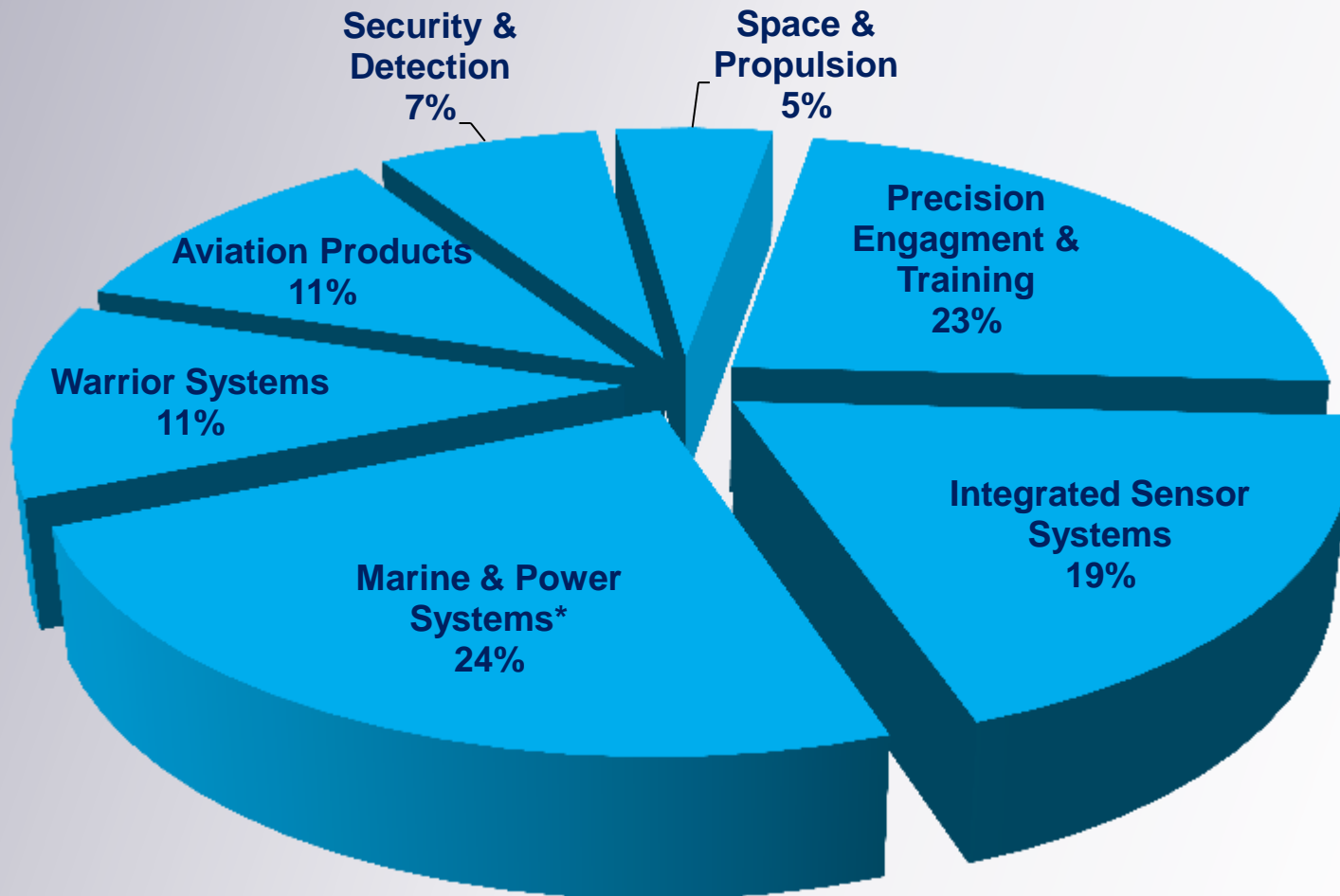
# Aerospace Systems Sectors



**2014 Midpoint Guidance: Net Sales \$4.5B, Margin 10.7%**



# Electronic Systems Sectors

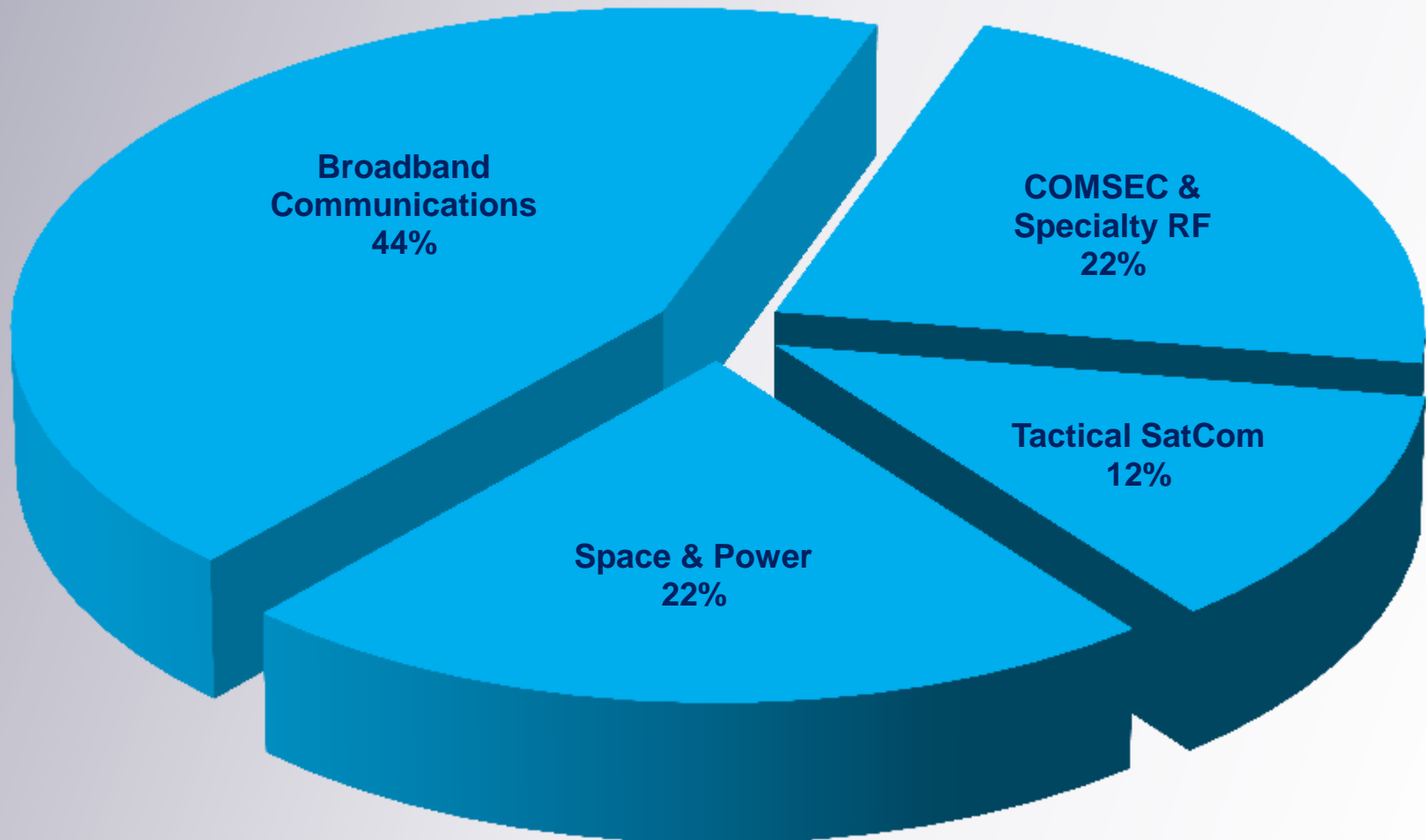


**2014 Midpoint Guidance: Net Sales \$4.5B, Margin 11.1%**

\* Includes the Marine Systems International Sector.



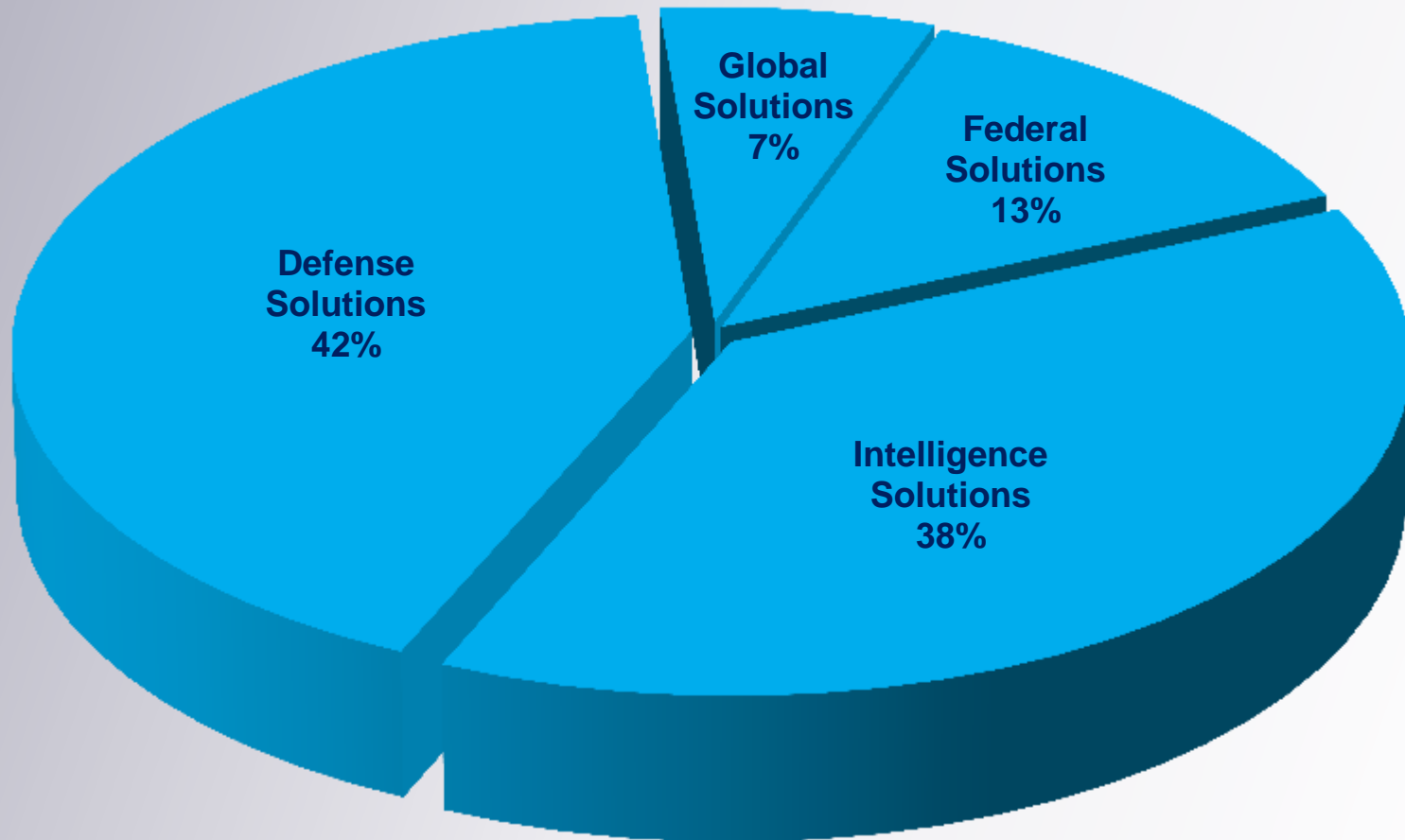
# Communication Systems Sectors



**2014 Midpoint Guidance: Net Sales \$1.85B, Margin 10.4%**



# NSS Sectors



**2014 Midpoint Guidance: Net Sales \$1.15B, Margin 7.4%**



# 2014 Segment Guidance

(\$ in Millions)

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%	10.6% to 10.8%	+10	+80
Electronic Systems	\$4,450 to \$4,550	-2%	11.0% to 11.2%	-50	+70
Comm Systems	\$1,800 to \$1,900	-15%	10.3% to 10.5%	+310	+170
NSS	\$1,100 to \$1,200	-11%	7.3% to 7.5%	+80	+10
<b>L-3 Consolidated</b>	<b>\$11,900 to \$12,100</b>	<b>-5%</b>	<b>10.5%</b>	<b>+50</b>	<b>+80</b>

\* Lower pension expense 2014 vs. 2013 increases operating income \$98M and margin 80 bps (Aerospace Systems \$34M, or 80 bps, Electronic Systems \$32M, or 70 bps, Communication Systems \$31M, or 170 bps and NSS \$1M, or 10 bps).



# Segment Realignments Reconciliation

(\$ in Millions)

	Previous			Realignments			Revised		
	2014	2013	2012	2014	2013	2012	2014	2013	2012
<b>Net Sales:</b>									
Aerospace Systems	\$ -	\$ -	\$ -	\$ 4,500	\$ 4,561	\$ 4,627	\$ 4,500	\$ 4,561	\$ 4,627
Electronic Systems	5,325	5,524	5,677	(825)	(919)	(1,053)	4,500	4,605	4,624
Communication Systems	-	-	-	1,850	2,168	2,510	1,850	2,168	2,510
NSS	1,150	1,295	1,385	-	-	-	1,150	1,295	1,385
C <sup>3</sup> ISR	3,125	3,367	3,601	(3,125)	(3,367)	(3,601)	-	-	-
P&LS	2,400	2,443	2,483	(2,400)	(2,443)	(2,483)	-	-	-
<b>Consolidated</b>	<b>\$ 12,000</b>	<b>\$ 12,629</b>	<b>\$ 13,146</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 12,000</b>	<b>\$ 12,629</b>	<b>\$ 13,146</b>
<b>Operating Income:</b>									
Aerospace Systems	\$ -	\$ -	\$ -	\$ 482	\$ 482	\$ 466	\$ 482	\$ 482	\$ 466
Electronic Systems	591	645	672	(91)	(112)	(99)	500	533	573
Communication Systems	-	-	-	192	158	233	192	158	233
NSS	85	85	79	-	-	-	85	85	79
C <sup>3</sup> ISR	353	301	364	(353)	(301)	(364)	-	-	-
P&LS	230	227	236	(230)	(227)	(236)	-	-	-
<b>Consolidated</b>	<b>\$ 1,259</b>	<b>\$ 1,258</b>	<b>\$ 1,351</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,259</b>	<b>\$ 1,258</b>	<b>\$ 1,351</b>
<b>Operating Margin:</b>									
Aerospace Systems	-	-	-				10.7%	10.6%	10.1%
Electronic Systems	11.1%	11.7%	11.8%				11.1%	11.6%	12.4%
Communication Systems	-	-	-				10.4%	7.3%	9.3%
NSS	7.4%	6.6%	5.7%				7.4%	6.6%	5.7%
C <sup>3</sup> ISR	11.3%	8.9%	10.1%				-	-	-
P&LS	9.6%	9.3%	9.5%				-	-	-
<b>Consolidated</b>	<b>10.5%</b>	<b>10.0%</b>	<b>10.3%</b>				<b>10.5%</b>	<b>10.0%</b>	<b>10.3%</b>

Note: 2014 represents the Guidance Midpoints (January 30, 2014).



# Segment Realignments Reconciliation

(\$ in Millions)

	Previous				Realignments				Revised			
	1Q13	2Q13	3Q13	4Q13	1Q13	2Q13	3Q13	4Q13	1Q13	2Q13	3Q13	4Q13
<b>Net Sales:</b>												
Aerospace Systems	\$ -	\$ -	\$ -	\$ -	\$ 1,186	\$ 1,133	\$ 1,084	\$ 1,158	\$ 1,186	\$ 1,133	\$ 1,084	\$ 1,158
Electronic Systems	1,350	1,357	1,333	1,484	(239)	(229)	(221)	(230)	1,111	1,128	1,112	1,254
Comm Systems	-	-	-	-	558	599	477	534	558	599	477	534
NSS	330	332	323	310	-	-	-	-	330	332	323	310
C <sup>3</sup> ISR	888	883	750	846	(888)	(883)	(750)	(846)	-	-	-	-
P&LS	617	620	590	616	(617)	(620)	(590)	(616)	-	-	-	-
Consolidated	<u>\$ 3,185</u>	<u>\$ 3,192</u>	<u>\$ 2,996</u>	<u>\$ 3,256</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,185</u>	<u>\$ 3,192</u>	<u>\$ 2,996</u>	<u>\$ 3,256</u>
<b>Operating Income:</b>												
Aerospace Systems	\$ -	\$ -	\$ -	\$ -	\$ 140	\$ 121	\$ 114	\$ 107	\$ 140	\$ 121	\$ 114	\$ 107
Electronic Systems	144	151	173	177	(27)	(24)	(30)	(31)	117	127	143	146
Comm Systems	-	-	-	-	35	40	31	52	35	40	31	52
NSS	21	19	26	19	-	-	-	-	21	19	26	19
C <sup>3</sup> ISR	91	70	63	77	(91)	(70)	(63)	(77)	-	-	-	-
P&LS	57	67	52	51	(57)	(67)	(52)	(51)	-	-	-	-
Consolidated	<u>\$ 313</u>	<u>\$ 307</u>	<u>\$ 314</u>	<u>\$ 324</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 313</u>	<u>\$ 307</u>	<u>\$ 314</u>	<u>\$ 324</u>
<b>Operating Margin:</b>												
Aerospace Systems	-	-	-	-					11.8%	10.7%	10.5%	9.2%
Electronic Systems	10.7%	11.1%	13.0%	11.9%					10.5%	11.3%	12.9%	11.6%
Comm Systems	-	-	-	-					6.3%	6.7%	6.5%	9.7%
NSS	6.4%	5.7%	8.0%	6.1%					6.4%	5.7%	8.0%	6.1%
C <sup>3</sup> ISR	10.2%	7.9%	8.4%	9.1%					-	-	-	-
P&LS	9.2%	10.8%	8.8%	8.3%					-	-	-	-
Consolidated	9.8%	9.6%	10.5%	10.0%					9.8%	9.6%	10.5%	10.0%



# Debt Analysis

(\$ in Millions)

	<b>12/31/13 Book Value</b>	<b>Yield to Maturity 3/21/14</b>	<b>Maturity Date</b>	<b>Market Prices 3/21/14</b>
<b><u>Senior:</u></b>				
Revolver	\$ -	n.a.	2/3/17	n.a.
3.95% Senior Notes	500	1.43%	11/15/16	\$ 106.50
5.2% Senior Notes	1,000	3.21%	10/15/19	\$ 110.05
4.75% Senior Notes	800	3.81%	7/15/20	\$ 105.23
4.95% Senior Notes	650	3.74%	2/15/21	\$ 107.03
<b><u>Subordinated:</u></b>				
3% CODES	689	1.34%	8/1/35	\$ 130.69
Unamortized Discounts	(9)			
<b>Total</b>	<b>\$ 3,630</b>			

- Notes: (1) CODES conversion price is currently \$89.08 and the conversion value is based on 7,739,236 L-3 common shares. Principal amount is settled in cash and any conversion amount in excess of principal may be settled in cash or common stock at L-3's discretion.  
 (2) CODES contain "puts" that holders can exercise on Feb 1, 2016, and every 5-year anniversary thereafter at a price of 100%.  
 (3) All debt issue interest rates are fixed, except for the revolving credit facility, which is variable based on LIBOR +150 basis points.  
 (4) Market prices are based on dealer bids. CODES price is based on stock price of \$116.01.



# Reconciliation of GAAP to Non-GAAP Measurements

(\$ in Millions)

	<u>2014 Guidance</u>	<u>2013 Actual</u>
Net cash from operating activities	\$ 1,195	\$1,263
Less: Capital expenditures	(200)	(209)
Add: Dispositions of property, plant and equipment	5	12
Free cash flow	<u>\$ 1,000</u>	<u>\$1,066</u>





