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PRESENTATION

Cai von Rumohr - *Cowen and Company - Analyst*

Okay, welcome to Cowen's 36th Aerospace and Defense Conference. Delighted to have you here. Our first company is going to be L-3 Communications. And we've got Ralph D'Ambrosio, CFO, who's going to give the presentation. And then Ralph and Mike, who is on his way here, are going to do a Q&A.

Ralph?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Thank you, Cai. Good morning, everyone. I think you all know L-3 pretty well by now, so I'm going to go through these charts rather quickly. In terms of what L-3 is all about, obviously we're an aerospace and defense contractor. We're both a prime contractor and a supplier. Our sales are direct to the end customer in about two-thirds of our sales, and that's what we consider to be prime. And we do most of our prime contractor work in ISR systems, including intelligence, analysis, and support work; aircraft sustainment, which includes modifications and maintenance, logistics support activities; simulation and training, both on the military side and the commercial-civil aviation side. We're also prime in night vision equipment and imaging systems. And lastly, in our NSS, or national security solutions segment, we also do enterprise IT and mission IT support systems work, including cyber security operations. In the other third of our business, we're a diversified supplier of electronic and communication systems that are used on a variety of military and commercial platforms.

Some of the key attributes about L-3 are that we're very broadly diversified in terms of our contract base and our technologies. We don't have any significant concentration in any handful, or a couple of handfuls of contracts. So our top 10 contracts comprise about 16% or 17% of our sales, and our top 40 contracts comprise about 35% of our sales. So you can see the diversification in the contracts based upon those metrics.

Last year, 29% of our sales were to international or foreign government, and commercial end customers, with the balance to the US Government, predominantly the DoD or US military. We believe we have a flexible cost structure without significant investment in plant and equipment. We have low capital intensity. And we have been able to resize our business units rather quickly during the downturn that began about five years ago. We think we have a very efficient capital structure while maintaining our investment-grade ratings, which are at the first tier. And in that regard, our intention is to preserve those ratings, not to improve them.

And lastly, one of the very attractive characteristics of L-3 is that we've had historically high net income to free cash flow conversion. Last year, it was about 140%, and we expect that to be an enduring characteristic of L-3 for the foreseeable future.

So, we think the Company is resilient and that we're doing a good job of managing through the DoD downcycle, which looks like it's set to inflect upward, beginning in FY16.

Our strategy and priorities have not changed, so I'm going to skip over these. I'm sure you'll have some questions about them -- I know Cai does -- when we get to the Q&A.

In terms of 2014, notwithstanding the issues that we had to contend with at Aerospace Systems, we did have an overall solid year. We gained market share in all four of our business segments. We continued to grow our international and commercial business, which has offset a portion of the declines that we've experienced on our US military business the last several years.

We also continued our consolidation activities, combining our legacy microwave products and communication systems groups last March into the new Communications Systems segment. We continue to generate very solid, robust cash flow. It was almost $950 million in 2014. We also in December announced an agreement to divest our commercial shipbuilding -- or shipboard products business based in Hamburg, Germany, which is called Marine Systems International. We expect that transaction to be completed sometime in the second quarter, probably in about the June time frame. And we continue to maintain an efficient capital structure with ample liquidity.

For the last several years, you all know that we've been returning all of our -- essentially all of our free cash flow to our shareholders. Most of it has been in the form of share repurchases. And we continue to modestly increase our dividend each year, which is -- we've been raising it $0.05 per quarter, or $0.20 per year, for the last six or seven years. And I expect that we will stay on that trajectory of modestly increasing the dividend for the foreseeable future each year.

A few comments on the end markets. First, the US government markets, which is predominantly the DoD. Last year it was 66% of our sales. In 2015, we expect that the DoD will be about 63% of our total sales. And on a geopolitical front, the threats that the nation is confronting are increasing and becoming more complex, which all support higher defense budgets and defense spending. On the positive side, the country's fiscal situation has also continued to improve the last three years, which takes away some pressure in terms of budgeting at the national level.

And we're still in the defense, or DoD, downcycle that began in 2011. The Better Buying Power initiatives are continuing. They are evolving. They are not going away. But we've been managing in that environment for four years now, and we think we can do that skillfully. We've been contending with the drawdown, first from Iraq, and then Afghanistan, which is reaching its end. And with respect to sequestration and the related spending or budget caps, we were very pleased that Congress took action to reduce the sequestration cuts for the first three years of sequestration, which were FY13, FY14, and FY15. They reduced the $50 billion cuts by about $13 billion per year. And we're hopeful that Congress takes similar action to reduce the sequestration cuts in the future, beginning in FY16. That said, even with -- even if full sequestration remains in effect, the base budget is going to grow very modestly in FY16, which begins on October 1 of this year. And, thereafter, it will grow at a modest pace of around 2% per year. So we think the worst is behind us, in terms of the DoD budgets, and they're set to improve very shortly.

That said, we believe that we had several opportunities to increase our market share in the US government markets, particularly in the US government classified areas. That's a budget area that's been growing significantly, and we expect to continue to grow for the next several years. And we're putting our money where our mouth is in that regard, because last week when we reported our fourth-quarter earnings, we said that we would increase our R&D investment by about $20 million per year, most of it going into the US government classified areas. And I can talk more about that later on, in the Q&A.

In terms of the international and commercial markets, which have been growing the last three or four years, last year they were 29% of our sales. This year, before the MSI divestiture, we expect that international and commercial will be about 32% of total sales. The MSI divestiture will reduce that by about 3 percentage points. On the international side, which is foreign governments or foreign military work, we have a large addressable market. So we don't believe that we need foreign government budgets to grow in order for us to grow our international business. We've been increasing our marketing and selling and business development efforts the last few years. We'll continue to do that. And we've also, each year, introduced more and more of our products and solutions for export. And those are the reasons why we've been growing the international sales, and we expect that we'll be able to continue to grow those the next several years.

On the commercial -- in the commercial end markets, we think there are very favorable long-term fundamentals that are largely tied to global GDP growth. And we expect our business to grow again in 2015. The key growth areas are, the largest ones being aviation products and simulation and training on the commercial or civil aircraft side. Our marine products business, which is the MSI company that we're divesting, is going to decline next year. A big part of that decline is due to the weakened euro.

In terms of our segments, Electronic Systems is our largest segment. It's been our best-performing segment based upon sales performance and on margins. We expect that to continue. We have our highest core margin here. It's going to increase with the divestiture of MSI, which will increase the margins about 50 basis points. And we expect that we're going to continue to drive margin improvement here, and that it's going to be the key driver of consolidated margin improvement for us at L-3.

Aerospace Systems. We've been contending with some sales and margin pressures here. Next year, the sales are expected -- or this year, we expect sales to decline almost $200 million. It's all related to the drawdown from Afghanistan in our small ISR aircraft work. But we think that's going to be behind us -- largely be behind us in 2015. This segment provides low-cost, rapid, quick reaction solutions for the US military and foreign militaries. And we think those are going to be in high demand in the near term and the long term. And we're continuing to invest in ISR systems, in multi-mission maritime patrol aircraft, as well as upgrades for C-130 aircraft. And our margins are improving this year, based upon what I would call an easy comparison, compared to 2014, given the issues that we had. But we expect that we'll be able to continue to expand in margins here beyond 2015; and hopefully get back, or get close to back to what this segment was earning a few years ago.

Communications Systems. We continue to have very solid, long-term, in many cases, sole-source positions in this segment. In 2013 and 2014, we had some significant sales headwinds coming from reduced tactical ISR spending and declining Army budgets. We think those pressures are largely behind us, as we only expect to have very modest, low-single-digit organic sales declines next year; 1% if you include the MITEQ acquisition. We continue to invest in our core technologies here. A lot of it, these days, is in the A2/AD communications area, where we have very strong, efficient, affordable technologies and solutions. And the core margin here is also improving. It's based upon higher productivity that we're going to enjoy in the manufacturing side, as well as some combination synergies that come from combining the microwave and legacy communications systems group that we did about a year ago.

And lastly, National Security Solutions. It's our smallest segment. It's contended with the most significant pressures during this downturn, including Better Buying Power; declining federal IT budgets; as well as small business set-asides, where there's deliberate efforts to move more work to smaller companies, which takes sales away from larger companies like L-3. That said, the business has done really well competitively the last couple of years. We've been gaining market share, winning prime contractor positions on important, multi-year ID/IQs. And last year, we also made some significant inroads in terms of increasing our market share with some key contract wins in the US government intelligence community. We're continuing to build our cyber security business. We've chosen to do that largely by targeting contract pursuits, as opposed to acquiring companies. We think it gives us a better return on our investment. And the margins in this segment are the lowest in the Company. They're likely to continue to be that way. And that's because of Better Buying Power, and also because about two-thirds of our contract mix here is in cost reimbursable contracts, where there's less risk in terms of contract performance, but also less reward in terms of the margin.

And that's the segments. Here is the 2015 guidance that we provided last Thursday. I'll skip over it, as we covered it in detail last week.

So to summarize, we believe L-3 has technologies and solutions that customers want and need. We have affordable solutions. And our technologies are also aligned with our customer priorities, whether it be in the military side or the commercial end markets. The DoD budget is going to inflect in FY16, upward. We are continuing to gain market share, grow our international and commercial business, and generating solid, robust cash flow all along the way.

So that concludes our comments. And I think we'll start the Q&A now with Cai. Thank you.

QUESTIONS AND ANSWERS

Cai von Rumohr - *Cowen and Company - Analyst*

Great presentation. Thank you. Why don't you have a seat?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Thanks, Cai.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. Thank you, Michael, for joining us. So the budget came out -- I mean, just taking a quick eyeball, it looks like all the incremental dough goes to big aircraft programs. And everything else is flat. How did you guys do?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

I think we're going to do better than we did last year, Cai.

Cai von Rumohr - *Cowen and Company - Analyst*

In the budget?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

Yes.

Cai von Rumohr - *Cowen and Company - Analyst*

Any notable programs of yours you think got more than you expected?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

It's more [peanut buttered] across this a little incremental across the board. I don't think I don't think I could point to any one program that is a winner, I guess, out of the budget.

Ralph, do you recall any?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Well, like we said, we don't have any singularly certainly large programs. And while you say that based upon the FY16 request, it looks like the aircraft programs are the big winners in terms of increases in budget. But if you look at the DoD defined investment categories, and look at what is requested for FY16 versus FY15, there are several areas that are going to grow over 10% where L-3 has significant participation on several programs. And those include C4I Systems; shipbuilding and maritime systems, where we do a lot of power and propulsion work; mission support, which a lot of it, I suspect, is in the IT area; missiles and munitions, and we have a lot of subsystems and products that are used on both missiles and a variety of munitions. And then lastly, missile defense is also going to increase significantly. And we do a lot of work there on the target side, and also in some key components like power devices.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

So we think -- we'll see what happens with the actual appropriation. But we think we are positioned in a lot of areas that are set to grow, in terms of the budget request.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. So if we look at your 2015 op margin, you held it at 9.3%, the same as October. And you talked -- pension is a real -- a $14 million-plus. But your medical expense is up $10 million; $5 million MITEQ integration. But MITEQ also has some profit, so are those all the items? Because you mentioned R&D is up $20 million. I think that's up a little bit more than expected in October.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Well, we decided to deliberately increase that investment more, since our preliminary outlook in October.

Cai von Rumohr - *Cowen and Company - Analyst*

So what was it in October, roughly?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Last year, we spent about $230 million in Company-sponsored IRAD. That doesn't include a lot of development and [NRE] type work that we do on a variety of fixed-price contracts, particularly in comm systems and electronic systems. So our R&D investment is actually a lot more than our nominal IRAD investment. So this year, in 2015, we expect that we're going to increase our total IRAD, Company-sponsored, to at least $260 million, and possibly as high as $280 million. So that includes the additional $20 million that we talked about last week that's going to be largely directed in the US government classified market.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. But so the number is bigger than it was in October. So really that's been absorbed by (multiple speakers).

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

It's been absorbed by cost and productivity improvements that we expect to generate elsewhere across the entire business.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. And the increment versus October is, what? $10 million or so?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

$20 million.

Cai von Rumohr - *Cowen and Company - Analyst*

Since October, it's $20 million more?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Yes, I said $20 million more in IRAD than what we planned initially.

Cai von Rumohr - *Cowen and Company - Analyst*

Okay, then -- versus October. Okay, great.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

That's what I said, and I'm sticking to it.

Cai von Rumohr - *Cowen and Company - Analyst*

Okay. This is good. So, this year you talk about $250 million drop again in OCO. But the OCO funds were really plussed up in fiscal 2015, with 2016 [request you're] only down 20%. You're showing a much bigger drop. Does this number have upside?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

We think it does. We think we're taking a conservative view on that business in terms of sales. You recall that last year we actually did $50 million more than we thought we were going to do in our Afghan OCO sales. So, depending on what ultimately happens this year, especially in the tactical ISR mission areas, we should have upside to that $450 million of sales for 2015. And I would size that upside at $50 million to $75 million.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it, okay. And then, so (multiple speakers) Project Liberty, you were talking a lot about SPYDR about a year ago. How are you doing in terms of foreign sales there?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

We're doing well. We're making progress. Last year we booked our first, our orders in Saudi Arabia. We think there's a good demand for the SPYDR aircraft with other foreign countries, as well as a lot of opportunities also here in the US government side, as well. So, while it's been a little slower than we anticipated, we think it's going to be a healthy growth area for us in ISR systems in the next several years.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. And you indicated 7% growth in commercial. So if we exclude the MSI divestiture -- so what are the key drivers there?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

The key drivers, I commented on a few minutes ago are -- in terms of the product areas or business areas, are aviation or avionics products, and then commercial or civil simulation training. That's our Link UK business that we acquired a little more than two years ago. We continue to do really well there, continuing to increase our market share. And then we also expect that we're going to grow our security and detection business, or the security screening business, this year, as well as our SATCOM communication terminals.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. So it is broad-based.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Yes.

Cai von Rumohr - *Cowen and Company - Analyst*

So when you look at business opportunities for this year, Mike, what do you think? What are the big opportunities you see? And then maybe the risks in terms of re-competes, if you have any?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

We have no major re-competes looking into 2015, like we did in 2014. But we mentioned SPYDR in Saudi Arabia. The demand for that platform in the region is great, given what's going on. And on the government side, there's more activity in places like Africa that is creating demand for not only ISR assets, but for comm terminals and other products that we supply, especially to the special operators. So, we think we're well-positioned with the portfolio, right now, to participate in any of the growth in those areas.

I think that beyond SPYDR, there's still opportunity -- we've had our first, not only SPYDR sale, but night vision sale, in the Emirates, of night vision equipment. And the government has been a little bit more cooperative on export control there to help industry make up for some of the shortfall in the US DoD sales, and keep our base humming along. That has been a bit of a tossup for most companies. We are optimistic that that will also keep some forward progress for us going into 2015 and beyond.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. So, electronics, your biggest business -- you talked about boosting market share. You've talked about getting the margins from 11.8%, at some point, up to 13% to 14%, even before the MSI divestiture. Maybe walk us through the key drivers, where you think the big gains in market share are; the key things that would get you to that higher margin. And is it still 13% to 14%, because we've got a number of moving pieces there?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

We did 13.4% margin in that segment in 2011. So we said, all of last year, that we expect that we can get back to those levels, 13% to 14%. And that continues to be the case. The key drivers are less top-line sales pressure. That's definitely happening. Continuing to grow our international commercial business, and that's nearly half of that segment's sales. And we tend to have higher margins in those end markets. And also the segment, even including the US government work, is probably almost 90% fixed price in terms of contract terms, given that most of the work we do is a supplier -- not in all cases. And so to the extent that we can realize cost savings and productivity improvements, which we have been doing, we get to keep a lot of those savings, unless we trade them away in competition, in terms of price. And price is an important competitive factor at every segment at L-3, including electronic systems. But we think for those reasons, we're going to be able to increase the margins. And I know you're going to ask me when (laughter) we're going to get back to those levels. I would like to say that we should be in the 13% to 14% range in 2017. So we'll give ourselves a little runway to get there, and try to get there sooner.

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Cai von Rumohr - *Cowen and Company - Analyst*

And that's still the number, because pension is a little bit of a headwind since you first said it.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

It's a headwind now.

Cai von Rumohr - *Cowen and Company - Analyst*

(multiple speakers) is a plus, so that still works out to that (inaudible). So to the other areas, ex-pension, looks like core communication margin should increase to 10% this year, even with the MITEQ integration. Where can those margins go in 2017 as the integrations complete?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

I'll look back at the history again on that one. We did 10.9% in that segment in 2011, so I think 11% is a very doable, achievable target there; also to get there within the next couple of years. Now, in this segment we've had more headwind in terms of pension expense. Over the medium- and the long-term, pension expense is going to systematically decline at L-3. And it's going to be a natural driver of margin expansion in three of our segments, most pronounced in communications systems.

Cai von Rumohr - *Cowen and Company - Analyst*

So that's an interesting point. Assuming there's no further change in the discount rate, assuming you hit your ROI target, what does the profile of pension look like as we look out to 2016 and 2017?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Okay. So, we said for 2015 that we expect our FAS expense to be almost $140 million. We expect it to be about the same in 2016. And then it declines to about $115 million in 2017, and about $110 million in 2018. The other part of the equation is the CAS costs, as you know; which for this year, we said we expect it to be about $110 million. It's about the same in 2016 and 2017, and then it takes a significant step upward to about $145 million in 2018. And that is based upon all the changes that were brought about by the Highway and Transportation Funding Act of last summer. So, those numbers assume, as you said, the discount rate stays where it is. So, as you can see, once we get beyond 2016, we're going to have some meaningful reduction in our net pension expense of about at least $20 million per year.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. So you indicated NSS margin you expected to be back-end-loaded, due to the slip on the profitable international program. Any other sectors where we should be aware of quarterly margin cadence that's actually different than the normal seasonal pattern?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Yes. At Aerospace Systems, in the first half of the year, we're still going to run losses of about $5 million per quarter on the Army C-12 contract. Our contract will end on July 31. That's what our guidance assumes. Now, we're going to try to win that re-competition. And it remains to be seen whether or not they'll be able to re-compete it by then. Highly unlikely, I suspect. So we could get another extension. And to the extent that we do, any additional extension is not going to be bound by the lower pricing arrangement that has caused the overruns that we've had there the last three or four years. So I think we have some upside in the second half of the year.

Whether we continue on C-12 or not, to the extent that we continue, there will be more upside. Similarly, on those international head of -- VIP head of state contracts, we're going to continue to accrue zero profit margins, because they are in a loss or near-loss position. So zero profit on them in the first half. Those programs are going to mostly end by the time we get to July, and we expect that they will be replaced at profitable work.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

Those remain -- and then we also -- last year, your call, we said we were putting more money in the aerostructures in terms of design and test activity. So we're still making some of those investments in the first half of this year. So that also will improve the margins, second half of 2015.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. So, from a strategic basis, your pension -- you had talked about potential for a portfolio shaping. How do you think about that? In the sense that it looks like MSI is essentially an EPS wash, but if you sell other things, it might be dilutive. Would you accept that? Is that worth it? You also could consider a spin-out. Talk to us a little bit about how you think about all those issues.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

Yes, we can improve our margins, Cai, with a couple of other divestitures, as well as a couple of acquisitions, more in the product or electronic systems area where there are already double-digit margins in place. And that's some of the portfolio -- when you think about portfolio shaping for us, it's really rotating out of some of the service areas, and into more products. So there'd be a large pickup in margin there.

Cai von Rumohr - *Cowen and Company - Analyst*

But, I mean, you pick up margin, but maybe you lose profit. So it could be a dilutive process if you sell some of those businesses, because you got to pay taxes. Are you willing to accept that dilution to get better margins?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

On a very limited basis. We haven't done that yet, and I would doubt that we would have anything similar to an Engility spin-off transaction. And, in any event, there's nothing of that size anymore. And we really took care of most of the bigger things.

Cai von Rumohr - *Cowen and Company - Analyst*

And you mentioned clearly that services is not a priority business in margins. And yet you look at the services business, there's like -- there's no CapEx. It's all DSOs, so that the capital requirements are lower. As you look at these decisions, do you look at ROIC? Is that a big factor?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

Yes, we look at all metrics.

Cai von Rumohr - *Cowen and Company - Analyst*

Okay.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

But notwithstanding the fact the fact that it is low CapEx, the strongest headwinds seem to exist in that area. And [not to] keep harping on Better Buying Power, but really the effect has been to break the incumbencies up; have more competitions, more frequently, which runs much higher -- you don't have CapEx, but you have higher bid and proposal costs that keep recurring, and a less predictable future on how to position these businesses, which is a major consideration now.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

For any player in that space.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. So I think -- and I can't remember which one of you said it, but -- and maybe Ralph, you look at the M&A, if you do it when you're on the downward pattern, basically it's much easier to make a mistake. If you do an acquisition as the market is going up, the market can bail you out if you make a little bit of a mistake. You did Data Tactics; now you're doing MITEQ. Are you coming around to maybe we're going into a period where it's going to be more attractive to go back to your heritage?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

I'd like to thank that's where we're going. M&A has never been excluded from our strategy, although the number of deals per year has dropped, as the downturn occurred. Both Data Tactics and MITEQ were great fits for us. Both of them. MITEQ is 100% consolidation. We're just putting these two facilities in Long Island together, which will give us much better economics in running that business. And besides, it's got a very good franchise in the power amp business, that fits very well with the microwave catalog we have. And Data Tactics fills a niche for us in the data analysis world, both in the ISR area -- handling the big data -- as well as in our NSS business. And we're continuing to see more deal flow. So I think there will be more to come.

Cai von Rumohr - *Cowen and Company - Analyst*

Got it. So, I guess one of the other big questions -- and I think, Ralph, you alluded to this -- that, clearly, your indicated capital deployment plan this year has upside. As you look at your business, what's the right capital structure for L-3 in today's environment? Should you go out and borrow more at these low rates to give yourself flexibility? Or how do you think about that?

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

We think that we have the appropriate capital structure today, in terms of how we finance the Company and our businesses, in that we already use a significant amount of debt or leverage. We use more than any of the other large defense companies, so we don't view it as a competitive issue that would necessitate that we increase our leverage. That said, our leverage is a very -- or debt is a very efficient form of financing, so we like it. But we've said repeatedly that we want to maintain our first tier level investment grade credit ratings. And we're saying the same thing this morning.

Cai von Rumohr - *Cowen and Company - Analyst*

Okay. Nice to see consistency. So, we're kind of running out of time (laughter). So as you look at 2015, Mike, what are one of the two things that could maybe -- that really bother you or worry you? And maybe the one or two things that could be opportunities that maybe we're not giving appropriate recognition to?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

Well, what always bothers me is the lack of consistency, [front direct] consistency, in the budget process in Washington. The industry needs to be able to rely on steady funding for us to make our investments. One of the topics that we had at that meeting that was been written about back in December, the Saturday meeting with the Pentagon leadership on the industrial base, has been they need industry to make more investments, given the ever-changing threat environment. And the response that we all had as industry was, well, we need to see steady funding so we know that those investments won't be ill-advised or a waste of time; that we need to know the products will find a place in a funded program.

So, I'd like to be a little more optimistic that that gets a little bit of hold now. There's a changing and the leadership at the Pentagon, as you know. Ash Carter understands the industry and our issues very, very well. We've worked with him before. And I'm very optimistic about what the future holds in that regard; that Ash knows what it takes to keep the industrial base happy, I guess is the way to say it, and to stimulate some of the investment. But without a clear path as to where we're going to get funding from, it's hard to make that investment decision.

Cai von Rumohr - *Cowen and Company - Analyst*

But so beyond the environment, so like, what are maybe they one or two things that could, as we look back at 2015, it's a better year, because --?

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

It's a better year, because we're not going to stumble at aerospace systems this year.

Cai von Rumohr - *Cowen and Company - Analyst*

(laughter) Okay.

Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

Number one. And number two, we're hoping to get the efficiencies out of the communication systems business from their SAP system that went in two years ago now. So I would expect both of those to be upticks for us; hopefully, better than we're forecasting.

Cai von Rumohr - *Cowen and Company - Analyst*

Terrific. Thank you very much. Appreciate it.

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Michael Strianese - *L-3 Communications Holdings, Inc. - Chairman, President and CEO*

Great. Thank you, Cai.

Ralph D'Ambrosio - *L-3 Communications Holdings, Inc. - SVP and CFO*

You're welcome, Cai.