

L 3 COMMUNICATIONS HOLDINGS INC  
Form 10-Q  
October 30, 2014  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the quarterly period ended September 26, 2014**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from                      to**  
**Commission file numbers 001-14141 and 333-46983**  
**L-3 COMMUNICATIONS HOLDINGS, INC.**  
**L-3 COMMUNICATIONS CORPORATION**  
**(Exact names of registrants as specified in their charters)**

<b>Delaware</b> <b>(State or other jurisdiction of</b>	<b>13-3937434 and 13-3937436</b> <b>(I.R.S. Employer</b>
<b>incorporation or organization)</b>	<b>Identification Nos.)</b>
<b>600 Third Avenue, New York, NY</b> <b>(Address of principal executive offices)</b>	<b>10016</b> <b>(Zip Code)</b>
<b>(212) 697-1111</b>	
<b>(Registrant's telephone number, including area code)</b>	

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of

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the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrants were required to submit and post such files).  Yes  No

Indicate by check mark whether the registrant, L-3 Communications Holdings, Inc., is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant, L-3 Communications Corporation, Inc., is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Act).  Yes  No

There were 85,133,193 shares of L-3 Communications Holdings, Inc. common stock with a par value of \$0.01 outstanding as of the close of business on October 24, 2014.

**Table of Contents**

**L-3 COMMUNICATIONS HOLDINGS, INC.  
AND L-3 COMMUNICATIONS CORPORATION  
INDEX TO QUARTERLY REPORT ON FORM 10-Q  
For the quarterly period ended September 26, 2014**

		<b>Page No.</b>
<b>PART I FINANCIAL INFORMATION</b>		
ITEM 1.	<u>Financial Statements</u>	
	<u>Condensed Consolidated Balance Sheets as of September 26, 2014 (Unaudited) and December 31, 2013</u>	1
	<u>Unaudited Condensed Consolidated Statements of Operations for the Quarterly and Year-to-Date periods ended September 26, 2014 and September 27, 2013</u>	2
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Quarterly and Year-to-Date periods ended September 26, 2014 and September 27, 2013</u>	4
	<u>Unaudited Condensed Consolidated Statements of Equity for the Year-to-Date periods ended September 26, 2014 and September 27, 2013</u>	5
	<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Year-to-Date periods ended September 26, 2014 and September 27, 2013</u>	6
	<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	41
ITEM 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	62
ITEM 4.	<u>Controls and Procedures</u>	62
<b>PART II OTHER INFORMATION</b>		
ITEM 1.	<u>Legal Proceedings</u>	65
ITEM 1A.	<u>Risk Factors</u>	65
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	66
ITEM 6.	<u>Exhibits</u>	66
	<u>Signature</u>	67

**Table of Contents****PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****L-3 COMMUNICATIONS HOLDINGS, INC.****AND L-3 COMMUNICATIONS CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS****(in millions, except share data)**

	<b>(Unaudited)</b> <b>September 26,</b> <b>2014</b>	<b>December 31,</b> <b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 508	\$ 500
Billed receivables, net of allowances of \$24 in 2014 and \$26 in 2013	871	991
Contracts in process	2,546	2,431
Inventories	371	359
Deferred income taxes	145	147
Other current assets	215	166
<b>Total current assets</b>	<b>4,656</b>	<b>4,594</b>
Property, plant and equipment, net	1,072	1,042
Goodwill	7,784	7,796
Identifiable intangible assets	263	285
Deferred debt issue costs	28	24
Other assets	238	247
<b>Total assets</b>	<b>\$ 14,041</b>	<b>\$ 13,988</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 415	\$ 541
Accrued employment costs	577	545
Accrued expenses	400	458
Advance payments and billings in excess of costs incurred	609	576
Income taxes	25	31
Other current liabilities	366	383
<b>Total current liabilities</b>	<b>2,392</b>	<b>2,534</b>
Pension and postretirement benefits	684	727
Deferred income taxes	649	635

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Other liabilities	399	406
Long-term debt	3,938	3,630
<b>Total liabilities</b>	<b>8,062</b>	<b>7,932</b>
Commitments and contingencies (see Note 18)		
Equity:		
L-3 shareholders' equity:		
L-3 Communications Holdings, Inc.'s common stock: \$.01 par value; 300,000,000 shares authorized, 85,053,114 shares outstanding at September 26, 2014 and 85,828,485 shares outstanding at December 31, 2013 (L-3 Communications Corporation's common stock: \$.01 par value, 100 shares authorized, issued and outstanding)	5,736	5,653
L-3 Communications Holdings, Inc.'s treasury stock (at cost), 69,683,610 shares at September 26, 2014 and 66,118,406 shares at December 31, 2013	(5,701)	(5,288)
Retained earnings	6,028	5,726
Accumulated other comprehensive loss	(160)	(110)
<b>Total L-3 shareholders' equity</b>	<b>5,903</b>	<b>5,981</b>
Noncontrolling interests	76	75
<b>Total equity</b>	<b>5,979</b>	<b>6,056</b>
<b>Total liabilities and equity</b>	<b>\$ 14,041</b>	<b>\$ 13,988</b>

See notes to unaudited condensed consolidated financial statements

Table of Contents

**L-3 COMMUNICATIONS HOLDINGS, INC.**  
**AND L-3 COMMUNICATIONS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share data)

	<b>Third Quarter Ended</b>	
	<b>September 26, 2014</b>	<b>September 27, 2013</b>
Net sales:		
Products	\$ 1,644	\$ 1,697
Services	1,296	1,305
Total net sales	2,940	3,002
Cost of sales:		
Products	(1,480)	(1,487)
Services	(1,203)	(1,209)
Total cost of sales	(2,683)	(2,696)
Operating income	257	306
Interest expense	(47)	(44)
Interest and other income, net	5	4
Income before income taxes	215	266
Provision for income taxes	(58)	(62)
Net income	\$ 157	\$ 204
Net income attributable to noncontrolling interests	(3)	(4)
Net income attributable to L-3	\$ 154	\$ 200
Earnings per share attributable to L-3 Holdings common shareholders:		
Basic	\$ 1.81	\$ 2.23
Diluted	\$ 1.78	\$ 2.19
Cash dividends paid per common share	\$ 0.60	\$ 0.55
L-3 Holdings weighted average common shares outstanding:		
Basic	85.1	89.6
Diluted	86.6	91.3

See notes to unaudited condensed consolidated financial statements

Table of Contents

**L-3 COMMUNICATIONS HOLDINGS, INC.**  
**AND L-3 COMMUNICATIONS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in millions, except per share data)

	Year-to-Date Ended	
	September 26, 2014	September 27, 2013
Net sales:		
Products	\$ 4,991	\$ 5,321
Services	3,925	4,067
Total net sales	8,916	9,388
Cost of sales:		
Products	(4,498)	(4,732)
Services	(3,636)	(3,750)
Total cost of sales	(8,134)	(8,482)
Operating income	782	906
Interest expense	(129)	(131)
Interest and other income, net	14	14
Income before income taxes	667	789
Provision for income taxes	(197)	(217)
Net income	\$ 470	\$ 572
Net income attributable to noncontrolling interests	(9)	(6)
Net income attributable to L-3	\$ 461	\$ 566
Earnings per share attributable to L-3 Holdings common shareholders:		
Basic	\$ 5.38	\$ 6.30
Diluted	\$ 5.21	\$ 6.20
Cash dividends paid per common share	\$ 1.80	\$ 1.65
L-3 Holdings weighted average common shares outstanding:		
Basic	85.7	89.9
Diluted	88.4	91.3



See notes to unaudited condensed consolidated financial statements

**Table of Contents**

**L-3 COMMUNICATIONS HOLDINGS, INC.  
AND L-3 COMMUNICATIONS CORPORATION**

**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(in millions)

	Third Quarter Ended		Year-to-Date Ended	
	September 26, 2014	September 27, 2013	September 26, 2014	September 27, 2013
Net income	\$ 157	\$ 204	\$ 470	\$ 572
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(63)	34	(57)	(18)
Unrealized (losses) gains on hedging instruments <sup>(1)</sup>	(3)	3		(1)
Pension and postretirement benefit plans:				
Amortization of net loss and prior service cost previously recognized <sup>(2)</sup>	2	13	7	40
Total other comprehensive (loss) income	(64)	50	(50)	21
Comprehensive income	93	254	420	593
Comprehensive income attributable to noncontrolling interests	(3)	(4)	(9)	(6)
Comprehensive income attributable to L-3	\$ 90	\$ 250	\$ 411	\$ 587

<sup>(1)</sup> Amounts are net of income tax benefits of \$1 million and income taxes of \$1 million for the quarterly periods ended September 26, 2014 and September 27, 2013, respectively, and an income tax benefit of \$1 million for the year-to-date period ended September 27, 2013.

<sup>(2)</sup> Amounts are net of income taxes of \$1 million and \$7 million for the quarterly periods ended September 26, 2014 and September 27, 2013, respectively, and income taxes of \$4 million and \$23 million for the year-to-date periods ended September 26, 2014 and September 27, 2013, respectively.

See notes to unaudited condensed consolidated financial statements



Table of Contents

**L-3 COMMUNICATIONS HOLDINGS, INC.**  
**AND L-3 COMMUNICATIONS CORPORATION**  
**UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EQUITY**

(in millions, except per share data)

	L-3 Holdings Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income		Noncontrolling Interests	Total Equity
	Shares Outstanding	Par Value				(Loss)	(Loss)		
<b>For the Year-to-Date Period Ended September 26, 2014:</b>									
Balance at December 31, 2013	85.8	\$ 1	\$ 5,652	\$ (5,288)	\$ 5,726	\$ (110)		\$ 75	\$ 6,056
Net income					461			9	470
Other comprehensive loss						(50)			(50)
Distributions to noncontrolling interests								(8)	(8)
Cash dividends paid on common stock (\$1.80 per share)					(155)				(155)
<b>Shares issued:</b>									
Employee savings plans	1.0		105						105
Exercise of stock options	1.1		102						102
Employee stock purchase plan									