L 3 COMMUNICATIONS HOLDINGS INC
Form 10-K
February 25, 2014
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2013

¨ 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)

Delaware	**13-3937434 and 13-3937436**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Nos.)
600 Third Avenue, New York, NY	**10016**
(Address of principal executive offices)	(Zip Code)

(212) 697-1111

(Telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered:**
	New York Stock Exchange

L-3 Communications Holdings, Inc.
common stock, par value $0.01 per share
Securities registered pursuant to Section 12(g) of the Act:

None.

Indicate by check mark if the registrants are well-known seasoned issuers, as defined in Rule 405 of the Securities Act. x Yes ¨ No

Indicate by check mark if the registrants are not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes x No

Indicate by check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrants have submitted electronically and posted on their corporate Website, 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). x Yes ¨ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrants knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant L-3 Communications Holdings, Inc. is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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 x	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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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 x (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 x No

The aggregate market value of the L-3 Communications Holdings, Inc. voting stock held by non-affiliates of the Registrants as of June 28, 2013 was approximately $7.6 billion. For purposes of this calculation, the Registrants have assumed that their directors and executive officers are affiliates.

There were 85,847,821 shares of L-3 Communications Holdings, Inc. common stock with a par value of $0.01 outstanding as of the close of business on February 19, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission (SEC) pursuant to Regulation 14A relating to the Registrants Annual Meeting of Shareholders, to be held on May 6, 2014, will be incorporated by reference in this Form 10-K in response to Items 10,11,12,13 and 14 of Part III. The definitive proxy statement will be filed with the SEC no later than 120 days after the registrants fiscal year ended December 31, 2013.

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L-3 COMMUNICATIONS HOLDINGS, INC.

L-3 COMMUNICATIONS CORPORATION

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PART I

For convenience purposes in this filing on Form 10-K, L-3 Holdings refers to L-3 Communications Holdings, Inc., and L-3 Communications refers to L-3 Communications Corporation, a wholly-owned operating subsidiary of L-3 Holdings. L-3 , we , us and our refer to L-3 Holdings and its subsidiaries, including L-3 Communications.

Item 1. Business

Overview

L-3 Holdings, a Delaware corporation organized in April 1997, derives all of its operating income and cash flows from its wholly-owned subsidiary, L-3 Communications. L-3 Communications, a Delaware corporation, is a prime contractor in Intelligence, Surveillance and Reconnaissance (ISR) systems, Command, Control, Communications (C^3) systems, platform and logistics solutions for aircraft, maritime vessels and ground vehicles, and national security solutions. L-3 is also a leading provider of a broad range of electronic systems used on military and commercial platforms. Our customers include the United States (U.S.) Department of Defense (DoD) and its prime contractors, U.S. Government intelligence agencies, the U.S. Department of Homeland Security (DHS), U.S. Department of State (DoS), allied international governments, and domestic and international commercial customers.

We have four reportable segments: (1) C^3ISR, (2) Electronic Systems, (3) Platform and Logistics Solutions (P&LS), and (4) National Security Solutions (NSS). Financial information for our segments, including sales by geographic area, is included in Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 22 to our audited consolidated financial statements.

For the year ended December 31, 2013, we generated sales of $12,629 million, operating income of $1,258 million and net cash from operating activities from continuing operations of $1,263 million. The table below presents a summary of our 2013 sales by major category of end customer. For a more detailed presentation of our sales by end customer, see Major Customers within this Business section.

	2013 Sales (in millions)	% of Total Sales
DoD	$ 8,584	68%
Other U.S. Government	584	5
Total U.S. Government	$ 9,168	73%
International (foreign governments)	1,753	14
Commercial international	1,061	8
Commercial domestic	647	5
Total sales	$ 12,629	100%

Business Strategy

The goal of our strategy is to build and sustain strong businesses with durable competitive discriminators and number one or number two market positions. Our business strategy is customer-focused and aims to increase shareholder value by expanding our strong positions in C^3ISR, electronic systems, platform and logistics solutions and national security solutions by leveraging our customer relationships and pursuing adjacent market opportunities. We intend to gain market share with innovative and affordable solutions, collaboration across L-3 s business units and demonstrated past performance that address customer imperatives. We will continue shifting our business portfolio to emphasize products, systems and proprietary services. Financially, our emphasis is on growing earnings per share and cash flow. Our strategy involves a flexible and balanced combination of organic growth, cost reductions, and select business acquisitions and divestitures, enabling us to grow the company and also return cash to our shareholders in a balanced and disciplined manner. Our strategy includes the elements discussed below.

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Maintain an Entrepreneurial, Accountable, Ethical and Results-Driven Culture. A key part of L-3 s strategy is our entrepreneurial, accountable, and results-driven culture that focuses on meeting our customers needs and on achieving L-3 s strategic goals and growth objectives. L-3 s culture is made up of diverse people providing creative, innovative and affordable solutions and ideas in an environment that fosters teamwork and collaboration across our business units. Operating with integrity and a commitment to the highest standards of ethical conduct and maintaining strong internal controls are foundational elements of our strategy to build and maintain the trust of our customers, shareholders, employees, suppliers and communities where we live and work.

Strengthen and Expand Our Market Positions. We intend to use our existing prime contractor and supplier positions and internal investments to increase our market share, grow our sales organically and continue to build strong businesses with durable discriminators that have a number one or number two market position. We intend to expand our prime contractor roles in select business areas where we have domain expertise, including C^3ISR, platform and logistics solutions and national security solutions. We expect to benefit from and expand our supplier positions to multiple bidders by leveraging our customer relationships and pursuing adjacent market opportunities. As an independent supplier of a broad range of products, subsystems and systems in several key business areas, our growth will partially be driven by expanding our share of existing programs and participating in new programs. Teaming arrangements with other prime contractors and platform original equipment manufacturers is one way we intend to pursue select new business opportunities and expand our content on select platforms. We plan to maintain our diversified and broad business mix with limited reliance on any single contract, follow-on or new business opportunity. While sales to the U.S. Government, especially the DoD, will remain an integral part of L-3 s business, we also intend to continue to increase our sales from international and commercial businesses. We expect to continue to supplement our organic sales growth by acquiring, on a select basis, businesses that provide attractive returns on investment and add new products, technologies, programs and contracts, or provide access to select DoD, other U.S. Government, international and/or commercial customers.

Collaborate to Increase Growth Opportunities. We intend to deepen the collaboration among our diversified businesses to develop new business opportunities, combine our leading technologies and deliver the right solutions to our customers quickly. We expect that our core strengths of agility, responsiveness and cost-effectiveness will allow us to continue to provide exceptional performance to our customers. We intend to continue our shift from a black box provider to a complete national security solutions provider.

Leverage Our Excellent Customer Relationships. We will maintain and expand our excellent customer relationships. We also intend to continue to leverage our customer relationships and our capabilities, including proprietary technologies, to expand the scope of our products to existing and new customers. We also intend to continue to align our products, services, investments in research and development and business acquisitions to proactively address customer priorities and requirements and invest in growth areas such as C^3ISR, sensor systems, special operations, cyber security and intelligence support.

Proactively Manage Our Cost Structure and Optimize Our Business Portfolio. We intend to continue to increase productivity and to reduce our direct contract costs and overhead costs, including general and administrative costs. Our effective management of labor, material, subcontractor and other direct costs is an important element of cost control and favorable contract performance. We believe that proactively re-sizing our businesses to their anticipated sales, combined with continuous cost improvement will enable us to increase our cost competitiveness, and to selectively invest in new product development, business acquisitions, bids and proposals and other business development activities to increase our market share.

Achieve Outstanding Program Performance. We believe that outstanding performance on our existing programs and contracts in terms of on-budget, on-schedule and satisfying and exceeding technical and other contractual performance requirements, is the foundation for expanding L-3 s prime contractor and supplier positions and growing market share. We believe that a prerequisite for growing and winning new business is to retain our existing business by successfully meeting the performance criteria included in our contracts. We will continue to focus on delivering superior contract performance with affordable prices to our customers in order to maintain our reputation as an agile and responsive contractor and to differentiate ourselves from our competitors.

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Attract and Retain Skilled Personnel. The success of our businesses is, to a large extent, dependent upon the knowledge and skills of our employees. We intend to continue to attract and retain employees who have management, contracting, engineering and technical skills and who have U.S. Government security clearances, particularly those with clearances of top-secret and above.

Business Acquisitions and Divestitures

During the years ended December 31, 2013, 2012 and 2011, we used net cash of $62 million, $348 million and $20 million for business acquisitions, respectively. Additionally, we completed the spin-off of our subsidiary, Engility Holdings, Inc. (Engility), to our shareholders on July 17, 2012. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Business Acquisitions and Divestitures for additional information regarding our business acquisitions and divestitures, including the spin-off of Engility.

Products and Services

Our four reportable segments provide a wide range of products and services to various customers and are described below. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Reportable Segment Results of Operations and Note 22 to our audited consolidated financial statements for financial information about each segment.

C^{3}ISR Reportable Segment

In 2013, C^{3}ISR net sales of $3,367 million represented 27% of our total net sales. The businesses in this reportable segment provide products and services for the global ISR market, specializing in signals intelligence (SIGINT) and communications intelligence (COMINT) systems. These products and services provide the warfighter with the unique ability to collect and analyze data from command centers, communication nodes and air defense systems for real-time situational awareness and response. The businesses in this reportable segment also provide C^3 systems, networked communication systems and secure communications products for military and other U.S. Government and allied international government intelligence, reconnaissance and surveillance applications. We believe that these products and services are critical elements for a substantial number of major command, control and communication, intelligence gathering and space systems. These products and services are used to connect a variety of airborne, space, ground and sea-based communication systems and are used in the transmission, processing, recording, monitoring, and dissemination functions of these communication systems. Major products and services for this reportable segment include:

- highly specialized fleet management sustainment and support services, including procurement, systems integration, sensor development, modifications and periodic depot maintenance for ISR and special mission aircraft and airborne systems;

- strategic and tactical SIGINT systems that detect, collect, identify, analyze and disseminate information;

- secure data links that enable real-time information collection and dissemination to users of networked communications for airborne, satellite, ground and sea-based remote platforms, both manned and unmanned;

secure terminal and communication network equipment and encryption management; and

communication systems for surface and undersea vessels and manned space flights.

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The table below provides additional information for the systems, products and services; selected applications; and selected platforms or end users of our C^{3}ISR reportable segment.

Systems/Products/Services	Selected Applications	Selected Platforms/End Users
ISR Systems		
Prime mission systems integration, sensor development and operations and support	Signal processing, airborne (SIGINT) applications, antenna technology, real-time process control and software development	U.S. Air Force (USAF), United Kingdom Ministry of Defence (U.K.MoD), and other allied international military ISR aircraft platforms and ground systems
Fleet management of special mission aircraft, including avionics and mission system upgrades and logistics support	Measurement collection and signal intelligence, special missions	DoD and classified customers within the U.S. Government
ISR operations and support	Data link support and services, special applications, classified projects, spares and repairs	USAF and U.S. Army ISR aircraft platforms and ground systems
Networked Communications		
Airborne, space and surface data link terminals, ground stations, and transportable tactical satellite communications (SATCOM) systems	High performance, wideband secure communication links for relaying of intelligence and reconnaissance information	Manned aircraft, unmanned aerial vehicles (UAVs), naval ships, ground vehicles and satellites for the DoD
Multi-band Manpack Receivers	Portable, ruggedized terminals used for receiving reconnaissance video and sensor data from multiple airborne platforms	U.S. Special Operations Command (USSOCOM), USAF and other DoD customers
Secure Communications Products		
Secure communications terminals and equipment, and secure network encryption products	Secure and non-secure voice, data and video communication for office, battlefield and secure internet protocol (IP) network applications	DoD and U.S. Government intelligence agencies
Ground-based satellite communications terminals and payloads	Interoperable, transportable ground terminals	DoD and U.S. Government intelligence agencies

Shipboard communications systems	Internal and external communications (radio rooms)	U.S. Navy (USN), U.S. Coast Guard (USCG) and allied international navies

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Electronic Systems Reportable Segment

In 2013, Electronic Systems net sales of $5,524 million represented 44% of our total net sales. The businesses in this reportable segment provide a broad range of products and services, including components, products, subsystems, systems and related services to military and commercial customers in several niche markets. The table below provides a summary of the segment s business areas and the percentage that each contributed to Electronic Systems net sales in 2013.

Business Area	% of 2013 Segment Sales
Marine & Power Systems	21%
Microwave Products	17
Sensor Systems	17
Simulation & Training	13
Aviation Products	8
Warrior Systems	8
Precision Engagement	7
Security & Detection Systems	5
Space & Propulsion Systems	4
Total Electronic Systems	100%

The table below provides additional information for the systems, products and services; selected applications; and selected platforms or end users of our Electronic Systems reportable segment.

Systems/Products/Services	Selected Applications	Selected Platforms/End Users
Marine & Power Systems		
Integrated electrical power and electric propulsion packages, integrated automation, navigation, communication, and dynamic positioning systems, and audio/visual solutions and safety systems	Surface ships ranging from shipping vessels, container carriers, environmental, research and offshore construction ships, naval frigates, ferries, cruise liners and mega yachts	Commercial shipbuilders and shipowners and allied international navies
Naval power delivery, conversion and switching products, and hybrid electric drives	Switching, distribution and protection, frequency and voltage conversion, propulsion motors and drive units	Naval submarines, surface ships and aircraft carriers
Automation, navigation, communications, and sensors and integrated Command, Control, Communications, Computers and	Vessel bridge and machinery plant platform management systems, and C^4N systems	USN and allied international navies and other government agencies

Navigation (C^4N) solutions

Power plant simulation, modeling, computer systems, and training services	Submarines, nuclear and other power plants	Allied international navies, nuclear and other power plant companies
Airborne dipping sonars, submarine and surface ship towed arrays	Submarine and surface ship detection and localization	USN and allied international navies

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Systems/Products/Services	Selected Applications	Selected Platforms/End Users
Underwater sensor ranges	Monitor nuclear testing, track submarines and surface vessels	U.S. and international military and commercial customers
Service life extensions	Landing craft air cushion amphibious vehicle	USN
In-service engineering, ship repair, overhaul, upgrades and maintenance, and battle force tactical training	Embedded shipboard training systems, towed arrays, navigation systems, radar systems and electronic warfare systems	USN, USCG, U.S. Army and commercial shipowners
Microwave Products		
Passive and active microwave components and subsystems and non-ionizing radiation monitoring equipment	Radio transmission, switching and conditioning, transponder control, channel and frequency separation, ground vehicles, aircraft and satellites	DoD and original equipment manufacturers (OEMs), SATCOM for DoD and various government agencies
Traveling wave tubes, power modules, klystrons and digital broadcast	Microwave vacuum electron devices and power modules	DoD and allied international military manned/unmanned platforms, including satellites, radar systems, communication systems, UAVs, missile defense systems, various missile programs and commercial broadcast
Quick-deploy flyaway very small aperture terminals (VSAT) and vehicular satellite systems	Satellite communication systems	U.S. Army, USAF and various DoD agencies
High dynamic small aperture Ku/Ka-band receive/transmit systems	Off road use on military vehicles, watercraft, and airborne platforms to provide two-way broadband connectivity while on the move	U.S. Army and various DoD agencies
Tactical ground based signal intercept and direction finding systems	Man portable and military vehicle mounted tactical signal intercept/exploitation and direction finding systems	U.S. Army and other DoD/U.S. intelligence agencies
Managed satellite networks and integrated remote VSAT satellite systems	Deployment and support of global communication networks for tactical and enterprise applications	U.S. Army, DoD/U.S. intelligence agencies, allied forces and commercial contractors
Multi-frequency time division multiple access modems and terminals that support SATCOM on	On the move SATCOM and other tactical communications systems utilizing small aperture terminals	U.S. Army, U.S Marine Corps (USMC), and select international allies

the move using X, Ku, and Ka bands

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Systems/Products/Services	Selected Applications	Selected Platforms/End Users
Ultra-wide frequency and advanced radar antennas and radomes	Surveillance and radar detection	Military fixed and rotary winged aircraft, SATCOM
Telemetry and instrumentation systems	Spacecraft telemetry tracking and control, encryption and high data rate transmitters, satellite command and control software, airborne and ground test telemetry systems, and tactical intelligence receivers	Aircraft, missiles and satellites
Sensor Systems		
Targeted stabilized camera systems with integrated sensors and wireless communication systems	Intelligence data collection and surveillance and reconnaissance	DoD, intelligence and security agencies, law enforcement, manned/unmanned platforms
Submarine photonic systems and periscopes	Virginia class submarines	USN
Airborne and ground based high energy laser beam directors, laser designators and high tracking rate telescopes	Directed energy systems, space surveillance, satellite laser ranging and laser communications, airborne and ground target designation/illumination	USAF and National Aeronautics Space Administration (NASA)
Improvised Explosive Device (IED) Defense Systems	Vehicle based and manpack IED detection and jamming systems	U.K. MoD and international allies
Force protection, electronic warfare and satellite monitoring	Counter IED systems, jamming and satellite monitoring	U.K. MoD and other international security agencies and ministries of defense
Simulation & Training		
Military and commercial aircraft flight simulators, reconfigurable training devices, distributed mission training suites	Advanced simulation technologies and training for pilots, navigators, flight engineers, gunners and operators	Fixed and rotary winged aircraft and ground vehicles for USAF, USN, U.S. Army, Canadian Department of National Defence (DND), allied international militaries, commercial airlines and aircraft OEMs
Training services, courseware integrated logistics support and maintenance	Systems management, operations, and maintenance	Various DoD and allied international military customers
Vehicle driver training and courseware	Drive safety, efficiency, and productivity training	Various commercial transport companies

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Systems/Products/Services	Selected Applications	Selected Platforms/End Users
Aviation Products		
Solid state crash protected cockpit voice and flight data recorders	Aircraft voice and flight data recorders that continuously record voice and sounds from cockpit and aircraft intercommunications	Commercial transport, business, regional and military aircraft
Airborne traffic and collision avoidance systems, terrain awareness warning systems	Reduce the potential for midair aircraft collisions and crashes into terrain by providing visual and audible warnings and maneuvering instructions to pilots	Commercial transport, business, regional and military aircraft
Advanced cockpit avionics	Pilot safety, navigation and situation awareness products	Commercial transport, business, regional and military aircraft
Cockpit and mission displays	High performance, ruggedized flat panel and cathode ray tube displays and processors	Various military aircraft
Warrior Systems		
Enhanced vision and weapon sights products	Image intensified night vision goggles/sights, holographic weapon sights, thermal sights and images, and driver viewers for special forces, pilots and aircrews, soldiers, marines, sailors and law enforcement personnel	U.S. Army, USN, USMC, DHS, allied international militaries and law enforcement agencies
Laser designation and range finder systems	Airborne and ground target designation/illumination	DoD, law enforcement and allied international customers
Weapons Training Systems	Laser marksmanship training systems and advanced integrated technologies for security products and services	DoD and law enforcement agencies
Precision Engagement		
Unmanned systems and components	Tactical unmanned air systems (UAS), medium altitude long endurance (MALE) UAS, small expendable UAS, flight controls, sensors and remote viewing systems	U.S. DoD and allied international ministries of defense
Radar-based sensors and systems	Electronic warfare, unmanned systems, ISR and precision-guided munitions	U.S. DoD and DHS

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Systems/Products/Services	Selected Applications	Selected Platforms/End Users
Global Positioning System (GPS) receivers	Location tracking	Guided projectiles and precision munitions
Fuzing and ordnance systems	Precision munitions, fuzes, and electronic and electro safety arming devices (ESADs)	Various DoD and allied international military customers
Remote viewing video and exploitation systems	Portable situational awareness and video exploitation software and hardware for soldiers, ships and vehicles	USMC, USN and various DoD
Lightweight man portable computer/displays for dismounted soldiers	Situational awareness and connectivity for dismounted soldiers	U.K. MoD
Security & Detection Systems		
Airport security systems, explosives detection systems and whole body imaging systems	Rapid scanning of passenger checked baggage and carry-on luggage, scanning of large cargo containers	DHS, including the U.S. Transportation Security Administration (TSA), domestic and international airports and state and local governments
Non-invasive security systems and portals, and sophisticated sensors with threat detection capabilities	Aviation, rail and border crossing security	TSA, U.S. Customs and Border Protection agency, various regulatory authorities and private security companies
Space & Propulsion Systems		
Navigation systems and positioning navigation units	Satellite launch and orbiting navigation and navigation for ground vehicles and fire control systems	USAF, U.S. Army, USMC and NASA
Ballistic missile targets	Targets for ground based ballistic missile intercept systems	U.S. Missile Defense Agency (MDA)
Heavy fuel engines, cross drive variable transmissions, turret drive systems, vehicle suspension, advanced drive systems and auxiliary power generators	Power trains and suspension systems for military vehicles, power and energy management for military hybrid electric vehicles, non-portable and under armor auxiliary power units, and heavy fueled engines for unmanned systems	U.S. Army, USMC and allied international ministries of defense, manned/unmanned military platforms

High power microwave sources, systems & effects, pulse power systems and electromagnetics hardened construction	Forensic analysis of weapons of mass destruction, and active detection of special nuclear material.	U.K. MoD, U.S. Defense Threat Reduction Agency, U.S. Army and USAF

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Platform & Logistics Solutions (P&LS) Reportable Segment

In 2013, P&LS net sales of $2,443 million represented 19% of our total net sales. The businesses in this reportable segment provide modernization, upgrades and sustainment, maintenance and logistics support solutions for military and various government aircraft and other platforms. We sell these services primarily to the DoD, the Canadian DND and other allied international governments. Major products and services for this reportable segment include:

- engineering, modification, maintenance, logistics and upgrades for aircraft, ground vehicles and personnel equipment;

- turnkey aviation life cycle management services that integrate custom developed and commercial off-the-shelf products for various military fixed and rotary wing aircraft, including heavy maintenance and structural modifications and interior modifications and construction; and

- aerospace and other technical services related to large fleet support, such as aircraft and vehicle modernization, maintenance, repair and overhaul, logistics, support and supply chain management, primarily for military training, tactical, cargo and utility aircraft.

The table below provides additional information for the systems, products and services; selected applications; and selected platforms or end users of our P&LS reportable segment.

Systems/Products/Services	Selected Applications	Selected Platforms/End Users
Logistics Solutions		
Logistics support, maintenance and refurbishment	Aircraft maintenance repair and overhaul, flight operations support for training, cargo and special mission aircraft	U.S. Army, USAF, USN, Canadian DND and other allied international militaries
Contract Field Teams (CFT)	Deployment of highly mobile, quick response field teams to customer locations to supplement the customer s resources for various ground vehicles and aircraft	U.S. Army, USAF, USN and USMC
Contractor Operated and Managed Base Supply (COMBS)	Inventory management activities relating to flight support and maintenance, including procurement and field distribution	Military training and cargo aircraft
Platform Solutions		

Modernization and life extension maintenance upgrades and support	Aircraft structural modifications and inspections, installation of mission equipment, navigation and avionics products, interior modifications	USN, USAF, Canadian DND, Royal Australian Air Force, other allied international governments, OEMs, very important person (VIP) and head of state aircraft, and various military fixed and rotary wing aircraft
Fabrication and assembly of fixed and rotary wing aeronautical structures	Rotary wing cabin assemblies, new and modified wings and subassemblies, and parts fabrication for OEMs	U.S. Army, USN, USMC, Canadian DND and OEMs

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National Security Solutions (NSS) Reportable Segment

In 2013, NSS net sales of $1,295 million represented 10% of our total net sales. The businesses in this reportable segment provide full-spectrum cyber operations support, enterprise and mission information technology (IT) solutions, intelligence operations support, and operational infrastructure solutions to the DoD, U.S. Government intelligence agencies, federal civilian agencies and allied international governments. Major services, solutions and systems for this reportable segment include:

- providing solutions and systems for secure communications, information systems networks and mobile devices and ensuring the integrity of information to enable trusted, interconnected, and resilient networks;
- providing operational enterprise IT solutions that help keep our customers relevant in their dynamic mission environment;
- developing solutions and systems for our customers that enable available data to be used more effectively to provide assessments, gain and maintain situation awareness, support decision-making, improve operations, and bring about customers desired effects;
- supporting intelligence collection, tasking, exploitation, analysis, dissemination, training, situational awareness, visualization, normalization, minimization and outcome assurance; and
- developing next-generation solutions and systems that help our customers solve operational, informational, and physical security challenges that can place facilities, infrastructure, installations, borders and perimeters, and transportation environments at risk.

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The table below provides additional information for the solutions, systems and services; selected applications and capabilities; and selected end users of our NSS reportable segment.

Solutions/Systems/Services	Selected Applications/Capabilities	Selected End Users
Full-Spectrum Cyber Operations Support	High-performance computing, dynamic network protection, advanced forensics and exploitation, modeling, simulation and wargaming, cloud and mobile security, and network virtualization	USAF, U.S. Government intelligence agencies, U.S. Combatant Commands and Defense Information Systems Agency
Enterprise and Mission IT	Enterprise architecture and systems engineering, systems integration and development, operations and maintenance (O&M) transformations for efficiencies and cost reductions, performance-based managed services, agile software engineering and development, space communications and launch support	U.S. Army, USAF, U.S. Navy, USSOCOM, U.S. Government intelligence agencies, U.K. MoD, Department of the Interior, DoS, NASA, and state and local government agencies
Intelligence Operations Support	Data fusion and analytics, visualization and decision-making, training and workforce development, mission engineering and operations support, mission-essential staffing and knowledge management	U.S. Army, USAF, USN, U.S. Combatant Commands, DoS, U.S. Government intelligence agencies, and U.K. MoD
Operational Infrastructure Support	Risk, threat and vulnerability assessment, complex systems architecture, enterprise-level command and control systems, intelligent surveillance, logistics and integrated sustainment, and surveillance, detection and response systems	USAF, USN, U.S. MDA, U.S. Strategic Command, DHS, National Oceanic and Atmospheric Administration (NOAA), and international governments

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Funded Backlog and Orders

We define funded backlog as the value of funded orders received from customers, less the cumulative amount of sales recognized on such orders. We define funded orders as the value of contract awards received from the U.S. Government, for which the U.S. Government has appropriated funds, plus the value of contract awards and orders received from customers other than the U.S. Government. The table below presents our funded backlog, percentage of funded backlog at December 31, 2013 expected to be recorded as sales in 2014 and funded orders for each of our reportable segments and on a consolidated basis.

	Funded Backlog at December 31,		Percentage of Funded Backlog at December 31, 2013 Expected to be Recorded as Sales in 2014	Funded Orders	
	2013	2012		2013	2012
	(in millions)			(in millions)	
Reportable Segment:					
C^3ISR	$ 2,783	$ 2,936	67%	$ 3,231	$ 3,706
Electronic Systems	5,086	5,070	62%	5,506	5,745
P&LS	1,865	2,168	69%	2,152	2,916
NSS	582	710	89%	1,167	1,431
Consolidated	$ 10,316	$ 10,884	66%	$ 12,056	$ 13,798

Our funded backlog does not include the full potential value of our contract awards, including those pertaining to multi-year, cost-plus type contracts, which are generally funded on an annual basis. Funded backlog also excludes the potential future orders and related sales from unexercised priced contract options that may be exercised by customers under existing contracts and the potential future orders and related sales of purchase orders that we may receive in the future under indefinite quantity contracts or basic ordering agreements during the term of such agreements.

Major Customers

The table below presents a summary of our sales by end customer and the percent contributed by each to our total sales. For additional information regarding domestic and international sales, see Note 22 to our audited consolidated financial statements.

	2013 Sales (in millions)	2013 % of Total Sales	2012 Sales (in millions)	2012 % of Total Sales
Air Force	$ 3,354	27%	$ 3,599	27%
Army	2,400	19	2,824	22

Navy/Marines		1,800	14		1,897	14
Other Defense		1,030	8		1,056	8
Total DoD	$	8,584	68%	$	9,376	71%
Other U.S. Government		584	5		650	5
Total U.S. Government	$	9,168	73%	$	10,026	76%
International (foreign governments)		1,753	14		1,463	11
Commercial international		1,061	8		985	8
Commercial domestic		647	5		672	5
Total sales	$	12,629	100%	$	13,146	100%

Direct sales to the end customer represented approximately 68% of our consolidated 2013 sales, and sales as a subcontractor or supplier represented the remaining 32%. Additionally, approximately 69% of our DoD sales for 2013 were direct to the customer, and approximately 31% were indirect through other prime system contractors and subcontractors of the DoD.

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Our sales are predominantly derived from contracts with agencies of, and prime system contractors to, the U.S. Government. Various U.S. Government agencies and contracting entities exercise independent and individual purchasing decisions, subject to annual appropriations by the U.S. Congress. For the year ended December 31, 2013, our five largest contracts (revenue arrangements) generated 12% of our consolidated sales and our largest contract (revenue arrangement) in terms of annual sales was the Fort Rucker Maintenance Support contract with the U.S. Army Aviation and Missile Life Cycle Management Command (AMCOM), which is included in our P&LS segment. Under this contract, which generated approximately 4% of our 2013 sales, we provide maintenance, logistics and other related sustainment support services for rotary wing aircraft assigned to Fort Rucker and satellite units in Alabama. Our period of performance, including unexercised annual options, continues through September 30, 2017.

Research and Development

We conduct research and development activities that consist of projects involving applied research, new product and systems development and select concept studies. We employ scientific, engineering and other personnel to improve our existing product-lines and systems and develop new products, technologies, and systems. As of December 31, 2013, we employed approximately 11,400 engineers, substantially all of whom hold advanced degrees, who work on company-sponsored research and development efforts and customer funded research and development contracts.

Company-sponsored (Independent) research and development costs for our businesses that are U.S. Government contractors are allocated to U.S. Government contracts and are charged to cost of sales when the related sales are recognized as revenue. Research and development costs for our commercial businesses are expensed as incurred and are also charged to cost of sales. The table below presents company-sponsored (Independent) research and development expenses incurred for the years ended December 31, 2013, 2012 and 2011 for our U.S. Government businesses and our commercial businesses.

	Year Ended December 31,		
	2013	2012	2011
		(in millions)	
Company-Sponsored Research and Development Costs:			
U.S. Government Contractor Businesses	$ 184	$ 196	$ 206
Commercial Businesses	74	88	73
Total	$ 258	$ 284	$ 279

Customer-funded research and development costs pursuant to contracts (revenue arrangements) are not included in the table above because they are direct contract costs and are charged to cost of sales when the corresponding revenue is recognized. See Note 2 to our audited consolidated financial statements for additional information regarding research and development.

Competition

Our businesses generally encounter significant competition. We believe that we are a major provider for many of the products and services we offer to our DoD, government and commercial customers.

Our ability to compete for existing and new business depends on a variety of factors, including:

the effectiveness and innovation of our technologies, systems and research and development programs;

our ability to offer superior program performance at an affordable and competitive cost;

historical, technical, cost and schedule performance;

our ability to attain supplier positions on contracts;

our ability to maintain an effective supplier and vendor base;

our ability to retain our employees and hire new ones, particularly those who have U.S. Government security clearances;

the capabilities of our facilities, equipment and personnel to undertake the business for which we compete; and

our ability to quickly and flexibly meet customer requirements and priorities.

L-3 is an aerospace and defense contractor with a broad and diverse portfolio of products and services. We are primarily a non-platform prime contractor and have diverse subcontractor positions. We supply our products and services to other prime system contractors. However, we also compete directly with other large prime system contractors for: (1) certain products, subsystems and systems, where they have vertically integrated businesses and (2) niche areas where we are a prime contractor. We also compete with numerous other aerospace, defense and government technical services contractors, which generally provide similar products, subsystems, systems or services.

In addition, our ability to compete for select contracts may require us to team with one or more of the other prime system contractors that bid and compete for major platform programs, and our ability to team with them is often dependent upon the outcome of a competition for subcontracts they award.

Patents and Licenses

Generally, we do not believe that our patents, trademarks and licenses are material to our operations. Furthermore, most of our U.S. Government contracts generally permit us to use patents owned by other U.S. Government contractors. Similar provisions in U.S. Government contracts awarded to other companies make it impossible for us to prevent the use of our patents in most DoD work performed by other companies for the U.S. Government.

Raw Materials

Although we generated 57% of our 2013 sales from products and systems, our businesses are generally engaged in limited manufacturing activities and have minimal exposure to fluctuations in the supply of raw materials. For those businesses that manufacture and sell products and systems, most of the value that we provide is labor oriented, such as design, engineering, assembly and test activities. In manufacturing our products, we use our own production capabilities as well as a diverse base of third party suppliers and subcontractors. Although certain aspects of our manufacturing activities require relatively scarce raw materials, we have not experienced difficulty in our ability to procure raw materials, components, sub-assemblies and other supplies required in our manufacturing processes.

Contracts

Generally, the sales price arrangements for our contracts are either fixed-price, cost-plus or time-and-material type. Generally, a fixed-price type contract offers higher profit margin potential than a cost-plus type or time-and-material type contract due to the greater levels of risk we assume on a fixed-price type contract.

On a fixed-price type contract (revenue arrangement), we agree to perform the contractual statement of work for a predetermined sales price. Although a fixed-price type contract generally permits us to retain profits if the total actual contract costs are less than the estimated contract costs, we bear the risk that increased or unexpected costs may reduce our profit or cause us to sustain losses on the contract. Accounting for the sales on a fixed-price type contract that is covered by contract accounting standards requires the preparation of estimates for: (1) the total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract s statement of work, and (3) the measurement of progress towards completion. Adjustments to original estimates for a contract s revenue, estimated costs at completion and estimated total profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change.

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On a cost-plus type contract (revenue arrangement), we are paid our allowable incurred costs plus a profit which can be fixed or variable depending on the contract s fee arrangement up to predetermined funding levels determined by our customers. Cost-plus type contracts with award and incentive fee provisions are our primary variable contract fee arrangement. Award fees provide for a fee based on actual performance relative to contractually specified performance criteria. Incentive fees provide for a fee based on the relationship which total allowable costs bear to target cost. The tables below present our sales from cost-plus type contracts with award fees and incentive fees and the percentage of available performance-based award fees we achieved.

	Year Ended December 31,		
	2013	2012	2011
Sales from Cost-Plus Contracts with:		(in millions)	
Award fees	$ 585	$ 624	$ 664
Incentive fees	557	711	842
Performance based fees	$ 1,142	$ 1,335	$ 1,506

	Year Ended December 31,		
	2013	2012	2011
Percentage of Available Performance Based Award Fees Achieved	91%	91%	91%

On a time-and-material type contract (revenue arrangement), we are paid on the basis of direct labor hours expended at specified fixed-price hourly rates (that include wages, overhead, allowable general and administrative expenses and profit) and materials at cost. Therefore, on cost-plus type and time-and-material type contracts we do not bear the risks of unexpected cost overruns, provided that we do not incur costs that exceed the predetermined funded amounts.

Substantially all of our cost-plus type contracts and time-and-material type contracts are with U.S. Government customers while sales to commercial customers are transacted under fixed-price sales arrangements and are included in our fixed-price contract type sales. The table below presents the percentage of our total sales generated from each contract type for the years ended December 31, 2013, 2012 and 2011.

	Year Ended December 31,		
Contract Type	2013	2012	2011
Fixed-price	71%	71%	69%
Cost-plus	24%	24%	23%
Time-and-material	5%	5%	8%
Total sales	100%	100%	100%

Regulatory Environment

Most of our revenue arrangements with agencies of the U.S. Government, including the DoD, are subject to unique procurement and administrative rules. These rules are based on both laws and regulations, including the U.S. Federal Acquisition Regulation, that: (1) impose various profit and cost controls, (2) regulate the allocations of costs, both direct and indirect, to contracts and (3) provide for the non-reimbursement of unallowable costs. Unallowable costs include, but are not limited to, lobbying expenses, interest expenses and certain costs related to business acquisitions, including, for example, the incremental depreciation and amortization expenses arising from fair value increases to the historical carrying values of acquired assets. Our contract administration and cost accounting policies and practices are also subject to oversight by government inspectors, technical specialists and auditors. See Part I Item 1A Risk Factors for a discussion of certain additional business risks specific to our government contracts.

Our U.S. Government contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether our operations are being conducted in accordance with these requirements. Investigations could result in administrative, civil, or criminal liabilities, including repayments, disallowance of certain costs, or fines and penalties. As is common in the U.S. defense industry, we are subject to business risks, including changes in the U.S. Government s procurement policies (such as greater emphasis on competitive procurement), governmental appropriations, national defense policies or regulations, service modernization plans, and availability of funds. A reduction in expenditures by the U.S. Government for products and services of the type we manufacture and provide, lower margins resulting from increasingly competitive procurement policies, a reduction in the volume of contracts or subcontracts awarded to us or the incurrence of substantial contract cost overruns could materially adversely affect our business.

In 2013, sales under foreign military sales (FMS) agreements, which are included in the international (foreign governments) category in the Major Customers table above, were $608 million, or 5% of our total consolidated sales. FMS agreements are made directly between the U.S. Government and allied international governments. In such cases, because we serve only as the supplier, we do not have unilateral control over the terms of the agreements. Certain of our sales are direct commercial sales to allied international governments. These sales are subject to U.S. Government approval and licensing under the Arms Export Control Act. Legal restrictions on sales of sensitive U.S. technology also limit the extent to which we can sell our products to allied international governments or private parties.

All of our U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if we default by failing to perform under the contract. Termination for convenience provisions provide only for our recovery of costs incurred or committed settlement expenses and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source. Our contracts with international governments generally contain similar provisions relating to termination at the convenience of the customer.

Environmental Matters

Our operations are subject to various environmental laws and regulations relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes used in our operations. We continually assess our obligations and compliance with respect to these requirements.

We have also assessed the risk of environmental contamination for our various manufacturing facilities, including our acquired businesses and, where appropriate, have obtained indemnification, either from the sellers of those acquired businesses or through pollution liability insurance. We believe that our current operations are in substantial compliance with all existing applicable environmental laws and permits. We believe our current expenditures will allow us to continue to be in compliance with applicable environmental laws and regulations. While it is difficult to determine the timing and ultimate cost to be incurred in order to comply with these laws, based upon available internal and external assessments, with respect to those environmental loss contingencies of which we are aware, we believe there are no environmental loss contingencies that, individually or in the aggregate, would be material to our consolidated results of operations, financial position or cash flows.

Employees

As of December 31, 2013, we employed approximately 48,000 full-time and part-time employees, 83% of whom were located in the United States. Of these employees, approximately 20% are covered by approximately 180 separate collective bargaining agreements with various labor unions. The success of our business is, to a large extent, dependent upon the knowledge of our employees and on the management, contracting, engineering and technical skills of our employees. In addition, our ability to grow our businesses, obtain additional orders for our products and services and to satisfy contractual obligations under certain of our existing revenue arrangements is largely dependent upon our ability to attract and retain employees who have U.S. Government security clearances, particularly those with clearances of top-secret and above. Historically, we have renegotiated labor agreements without significant disruptions to operating activities and we believe that relations with our employees are positive.

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L-3 Holdings Obligations

The only obligations of L-3 Holdings at December 31, 2013 were: (1) its 3% Convertible Contingent Debt Securities (CODES) due 2035, which were issued by L-3 Holdings on July 29, 2005, (2) its guarantee of borrowings under the revolving credit facility of L-3 Communications and (3) its guarantee of other contractual obligations of L-3 Communications and its subsidiaries. L-3 Holdings obligations relating to the CODES have been jointly, severally, fully and unconditionally guaranteed by L-3 Communications and certain of its 100% owned domestic subsidiaries. In order to generate the funds necessary to repurchase its common stock and pay dividends declared and principal and interest on its outstanding indebtedness, if any, L-3 Holdings relies on dividends and other payments from its subsidiaries.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports, including annual, quarterly and current reports, proxy statements and other information with the SEC. Such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at 100 F Street, N.E., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Room of the SEC at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Such material may also be accessed electronically by means of the SEC s home page on the Internet at http://www.sec.gov.

You may also obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statement for the annual shareholders meeting, as well as any amendments to those reports as soon as reasonably practicable after electronic filing with the SEC through our website on the Internet at http://www.L-3com.com.

We also have a Corporate Governance webpage. You can access our Corporate Governance Guidelines and charters for the audit, compensation and nominating/corporate governance committees of our Board of Directors through our website, http://www.L-3com.com, by clicking on the Corporate Governance link under the heading Investor Relations. We post our Code of Ethics and Business Conduct on our Code of Ethics webpage under the link Code of Ethics and Business Conduct. Our Code of Ethics and Business Conduct applies to all directors, officers and employees, including our chairman, president and chief executive officer, our senior vice president and chief financial officer, and our vice president, controller and principal accounting officer. We will post any amendments to the Code of Ethics and Business Conduct, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. (NYSE), on our website within the required periods. The information on our website is not incorporated by reference into this report.

To learn more about L-3, please visit our website at http://www.L-3com.com. From time to time we use our website as a channel of distribution of material company information. Financial and other material information regarding L-3 is routinely posted on our website and is readily accessible.

Item 1A. Risk Factors

You should carefully consider the following risk factors and other information contained in this Form 10-K, including Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations . Any of these risks could materially affect our business and our financial condition, results of operations and cash flows, which could in turn materially affect the price of our common stock.

Our contracts (revenue arrangements) with U.S. Government customers entail certain risks.

A decline in or a redirection of the U.S. defense budget could result in a material decrease in our sales, results of operations and cash flows.

Our government contracts and sales are highly correlated and dependent upon the U.S. defense budget which is subject to the congressional budget authorization and appropriations process. Congress usually appropriates funds for a given program on a September 30 fiscal year basis, even though contract periods of performance may extend over many years. Consequently, at the beginning of a major program, the contract is usually partially funded, and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by Congress in future fiscal years. DoD budgets are a function of factors beyond our control, including, but not limited to, changes in U.S. procurement policies, budget considerations, current and future economic conditions, presidential administration priorities, changing national security and defense requirements, geopolitical developments and actual fiscal year congressional appropriations for defense budgets. Any of these factors could result in a significant decline in, or redirection of, current and future DoD budgets and impact our future results of operations, including our sales and operating income growth rates.

The DoD budget peaked in the fiscal year ended September 30, 2010 (FY 2010) at $690 billion and has declined since. The total DoD enacted budget for the FY 2014 is $583 billion and complies with the sequestration cuts required by the Budget Control Act of 2011 (BCA), as amended by The American Taxpayer Relief Act (ATRA), which was enacted on January 2, 2013. ATRA delayed the effective date of the BCA sequester cuts by two months to March 1, 2013 and reduced the sequester cuts to the FY 2013 budget by $9 billion to approximately $41 billion. After ATRA, the sequestration cuts for the FY 2014 DoD budget were supposed to be $46 billion and approximately $52 billion per year from FY 2015 to FY 2018. On December 26, 2013, President Obama signed the Bipartisan Budget Act of 2013 (BBA) into law, which reduced DoD budget uncertainty for FY 2014 and FY 2015 by increasing BCA spending caps and lowering sequester cuts to the DoD base budget by $22 billion for FY 2014 and $9 billion for FY 2015. Additionally, Congress also increased the FY 2014 Overseas Contingency Operations budget by $6 billion more than the amount included in the FY 2014 Proposed Budget Request. The declining DoD budgets will reduce funding for some of our revenue arrangements and generally will have a negative impact on our sales, results of operations and cash flows.

In addition, in the event that the federal debt limit is met, we may be required to continue to perform for some period of time on certain of our U.S Government contracts even if the U.S Government is unable to make timely payments. Furthermore, such limits could also potentially delay program/contract start dates or the U.S Government may issue a stop work order and choose to either resume the work or terminate the contract altogether. Any of these events would likely result in a material adverse effect on our financial position, results of operations and cash flows.

We rely predominantly on sales to U.S. Government entities, and the loss or delay of a significant number of our contracts would have a material adverse effect on our results of operations and cash flows.

Our sales are predominantly derived from contracts (revenue arrangements) with agencies of, and prime system contractors to, the U.S. Government. The loss or delay of all or a substantial portion of our sales to the U.S. Government would have a material adverse effect on our results of operations and cash flows. Approximately 73%, or $9.2 billion, of our sales for the year ended December 31, 2013 were made directly or indirectly to U.S. Government agencies, including 68% to the DoD. Aggregate sales for our five largest contracts (revenue arrangements) amounted to approximately $1.6 billion, or 12% of our sales for the year ended December 31, 2013. Our largest contract (revenue arrangement) in terms of annual sales for the year ended December 31, 2013 was the Fort Rucker Maintenance Support contract with AMCOM, which is included in our P&LS segment and generated approximately 4% of our 2013 sales.

A substantial majority of our total sales are for products and services under contracts with various agencies and procurement offices of the DoD or with prime contractors to the DoD. Although these various agencies, procurement offices and prime contractors are subject to common budgetary pressures and other factors, our customers exercise independent purchasing decisions. Because of this concentration of contracts, if a significant number of our DoD contracts and subcontracts are simultaneously delayed or cancelled for budgetary, performance or other reasons, it would have a material adverse effect on our results of operations and cash flows.

In addition to contract cancellations and declines in agency budgets, our backlog and future financial results may be adversely affected by:

- curtailment of the U.S. Government s use of technology or other services and product providers, including curtailment due to government budget reductions and related fiscal matters;

- developments in Afghanistan or other geopolitical developments that affect demand for our products and services;

- our ability to hire and retain personnel to meet increasing demand for our services; and

- technological developments that impact purchasing decisions or our competitive position.

The DoD s wide-ranging efficiency and better buying power initiatives, which target affordability and cost growth, could have a material effect on the procurement process and may adversely affect our existing contracts and the award of new contracts.

The DoD has implemented best practices to the procurement process that are intended to control cost growth throughout the acquisition cycle by developing a competitive strategy for each program. As a result, the Company has and continues to engage in more frequent negotiations and re-competitions on a cost or price analysis basis with every competitive bid in which it participates. This initiative is organized into seven focus areas: affordability, cost control, productivity incentives and innovation, competition, services acquisition, and improved professionalism. This initiative significantly changed the way the U.S. Government solicits, negotiates and manages its contracts and could result in a reduction in expenditures for the type of products we manufacture for, and services we provide to, the U.S. Government, which could have a material negative impact on our future sales, earnings and cash flows.

In addition, the FY 2013 DoD budget reduced contractor support services and consolidation of enterprise IT systems as part of an effort to achieve another $60 billion of efficiency savings over the five fiscal years FY 2013 through FY 2017. This initiative primarily affects our businesses within the National Security Solutions reportable segment and could result in the loss of certain of our existing contracts (revenue arrangements) depending on how the DoD implements this initiative.

Our government contracts contain unfavorable termination provisions and are subject to audit and modification. If a termination right is exercised by the government, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Companies engaged primarily in supplying defense-related equipment and services to U.S. Government agencies are subject to certain business risks peculiar to the defense industry. These risks include the ability of the U.S. Government to unilaterally:

- suspend us from receiving new contracts pending resolution of alleged violations of procurement laws or regulations;

- terminate existing contracts;

- reduce the value of existing contracts; and

- audit our contract-related costs and fees, including allocated indirect costs.

All of our U.S. Government contracts can be terminated by the U.S. Government either for its convenience or if we default by failing to perform under the contract. Termination for convenience provisions provide only for our recovery of costs incurred or committed settlement expenses and profit on the work completed prior to termination. Termination for default provisions provide for the contractor to be liable for excess costs incurred by the U.S. Government in procuring undelivered items from another source. Our contracts with international governments generally contain similar provisions relating to termination at the convenience of the customer.

U.S. Government agencies, including the Defense Contract Audit Agency and various agency Inspectors General, routinely audit and investigate our costs and performance on contracts, as well as our accounting and general business practices. Based on the results of such audits, the U.S. Government may adjust our contract related costs and fees, including allocated indirect costs. In addition, under U.S. Government purchasing regulations, some of our costs, including certain business acquisition costs, most financing costs, portions of research and development costs, and certain marketing expenses may not be reimbursable under U.S. Government contracts.

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We currently have a backlog of funded orders, primarily under contracts with the U.S. Government. Our total funded backlog was $10,316 million at December 31, 2013. As described above, the U.S. Government may unilaterally modify or terminate its contracts with us. Accordingly, most of our backlog could be modified or terminated by the U.S. Government, which would negatively impact our future sales, results of operations and cash flows.

We may not be able to win competitively awarded contracts or receive required licenses to export our products, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects.

Our government contracts are subject to competitive bidding. We obtain many of our U.S. Government contracts through a competitive bidding process. We may not be able to continue to win competitively awarded contracts. In addition, awarded contracts may not generate sales sufficient to result in our profitability. We are also subject to risks associated with the following:

- the frequent need to bid on programs in advance of the completion of their design, which may result in unforeseen technological difficulties and/or cost overruns;
- the substantial time, effort and experience required to prepare bids and proposals for competitively awarded contracts that may not be awarded to us;
- design complexity and rapid technological obsolescence; and
- the constant need for design improvement.

In addition to these U.S. Government contract risks, we are not permitted to export some of our products and are also required to obtain licenses from U.S. Government agencies to export many of our products and systems. Failure to receive required licenses would eliminate our ability to sell our products and systems outside the United States.

Intense competition and bid protests may adversely affect our sales, results of operations and cash flows.

The defense and commercial industries in which our businesses operate are highly competitive. We expect that the DoD s increased use of commercial off-the-shelf products and components in military equipment will continue to encourage new competitors to enter the market. We also expect increased competition for our products and services from other providers due to the uncertainty of future U.S. defense budgets. Furthermore, the current competitive environment has resulted in an increase of bid protests from unsuccessful bidders, which typically extends the time until work on a contract can begin. Additionally, some of our competitors are larger than we are and have more financial and other resources than we have. For more information concerning the factors that affect our ability to compete, see Part I Item 1 Business Competition.

We are subject to government investigations, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects.

U.S. Government contracts are subject to extensive legal and regulatory requirements, and from time to time agencies of the U.S. Government investigate whether such contracts were and are being conducted in accordance with these requirements. As discussed in Note 19 to our audited consolidated financial statements, we are currently cooperating with the U.S. Government on several investigations. Under U.S. Government regulations, an indictment of the Company by a federal grand jury, or an administrative finding against us as to our present responsibility to be a U.S. Government contractor or subcontractor, could result in us being suspended for a period of time from eligibility for awards of new government contracts or task orders or in a loss of export privileges. A conviction, or an administrative finding against us that satisfies the requisite level of seriousness, could result in debarment from contracting with the federal government for a specific term.

We are subject to the risks of current and future legal proceedings, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects.

At any given time, we are a defendant in various material legal proceedings and litigation matters arising in the ordinary course of business, including litigation, claims and assessments that have been asserted against

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acquired businesses, which we have assumed. Although we maintain insurance policies, these policies may not be adequate to protect us from all material judgments and expenses related to current or future claims and may not cover the conduct that is the subject of the litigation. Desired levels of insurance may not be available in the future at economical prices or at all. In addition, we believe that while we have valid defenses with respect to legal matters pending against us, the results of litigation can be difficult to predict, including those involving jury trials. Accordingly, our current judgment as to the likelihood of our loss (or our current estimate as to the potential range of loss, if applicable) with respect to any particular litigation matter may turn out to be wrong. A significant judgment against us, arising out of any of our current or future legal proceedings and litigation, could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects. For a discussion of material litigation to which we are currently a party, see Note 19 to our audited consolidated financial statements.

If we are unable to keep pace with rapidly evolving products and service offerings and technological change, there could be a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects.

The rapid change of technology is a key feature of most of the markets in which our products, services and systems oriented businesses operate. To succeed in the future, we will need to continue to design, develop, manufacture, assemble, test, market and support new products and enhancements on a timely and cost-effective basis. Historically, our technology has been developed through customer-funded and internally funded research and development and through certain business acquisitions. We may not be able to continue to maintain comparable levels of research and development or successfully complete such acquisitions. In the past, we have allocated substantial funds to capital expenditures, programs and other investments. This practice will continue to be required in the future. Even so, we may not be able to successfully identify new opportunities and may not have the necessary financial resources to develop new products and systems in a timely or cost-effective manner. At the same time, products and technologies developed by others may render our products, services and systems obsolete or non-competitive.

Goodwill represents a significant asset on our balance sheet and may become impaired.

Goodwill represents the largest asset on our balance sheet, with an aggregate balance of $7,796 million at December 31, 2013. We review goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also review goodwill annually in accordance with the accounting standards for goodwill and intangible assets. The annual impairment test requires us to determine the fair value of our reporting units in comparison to their carrying values. A decline in the estimated fair value of a reporting unit could result in a goodwill impairment, and a related non-cash impairment charge against earnings, if estimated fair value for the reporting unit is less than the carrying value of the net assets of the reporting unit, including its goodwill.

Our annual impairment tests at November 30, 2013 and 2012 did not result in impairments to goodwill; we did record a non-cash goodwill impairment charge of $43 million as a result of our annual impairment test at November 30, 2011. The fair value of four of our reporting units exceeded the carrying value of the net assets of those reporting units by 20% or less at November 30, 2013, the date of our annual impairment assessment. These four reporting units had aggregate goodwill of approximately $2,861 million. The estimated fair values of our reporting units could be negatively impacted by potential additional reductions to the DoD budget that impact our programs, including how sequestration cuts will be implemented in FY 2015 and future fiscal year DoD budgets. A decline in the estimated fair value of one or more of our reporting units could potentially trigger goodwill impairment charges and a material adverse effect on our results of operations. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Goodwill and Identifiable Intangible Assets for further discussion.

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Our results of operations and cash flows are substantially affected by our mix of fixed-price, cost-plus and time-and-material type contracts.

Our sales are transacted using written revenue arrangements, or contracts, which are generally fixed-price, cost-plus or time-and-material. For a description of our revenue recognition policies, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies. The table below presents the percentage of our total sales generated from each contract type.

	Year Ended December 31,		
Contract Type	**2013**	**2012**	**2011**
Fixed-price	71%	71%	69%
Cost-plus	24%	24%	23%
Time-and-material	5%	5%	8%
Total sales	100%	100%	100%

Substantially all of our cost-plus and time-and-material type contracts are with the U.S. Government, primarily the DoD. Substantially all of our sales to commercial customers are transacted under fixed-price sales arrangements and are included in our fixed-price type contract sales.

On a fixed-price type contract (revenue arrangement), we agree to perform the contractual statement of work for a predetermined sales price. Although a fixed-price type contract generally permits us to retain profits if the total actual contract costs are less than the estimated contract costs, we bear the risk that increased or unexpected costs may reduce our profit or cause us to sustain losses on the contract.

On a cost-plus type contract (revenue arrangement), we are paid our allowable incurred costs plus a profit, which can be fixed or variable depending on the contract s fee arrangement up to predetermined funding levels established by our customers. On a time-and-material type contract (revenue arrangement), we are paid on the basis of direct labor hours expended at specified fixed-price hourly rates (that include wages, overhead, allowable general and administrative expenses and profit) and materials at cost. Therefore, on cost-plus and time-and-material type contracts, we do not bear the risks of unexpected cost overruns, provided that we do not incur costs that exceed the predetermined funded amounts.

Additionally, the impact of revisions in profit or loss estimates for all types of contracts subject to percentage of completion accounting are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period in which they become evident. Amounts representing contract change orders or claims are included in sales only when they can be reliably estimated and their realization is reasonably assured. The revisions in contract estimates, if significant, can materially affect our results of operations and cash flows, as well as reduce the valuations of receivables and inventories; and in some cases, result in liabilities to complete contracts in a loss position.

Pension expense and funding may fluctuate significantly because of changes in key estimates and assumptions, including discount rates and assumed long-term rate of return on assets, as well as our actual investment returns and regulatory actions, which could negatively impact our results of operations, cash flows and financial condition.

Determining our pension expense requires significant judgment, particularly with respect to our discount rates, assumed long-term rate of return on assets and other actuarial assumptions. If our assumptions change significantly due to changes in economic, legislative, demographic experience and/or circumstances, our pension expense, the funded status of our plans and our cash contributions to such plans would be impacted, which could negatively affect our results of operations, cash flows and financial condition. In addition, differences between our actual investment returns and our assumed long-term rate of return on assets could also impact our pension expense, the funded status of our plans and our required cash contributions to the plans. Further, our pension expense and the funded status of our plans, including required cash contributions to the Plans, may be impacted by regulatory actions in any given year.

Additionally, pension plan cost recoveries under Cost Accounting Standards (CAS) for our U.S. Government contracts occur in different periods from when pension expense is recognized under accounting principles generally accepted in the U.S. or when cash contributions are made. Although CAS has been revised to better align the minimum required contributions under the Employee Retirement Income Security Act of 1974 (ERISA), as amended by the Pension Protection Act of 2006, and pension plan cost recoveries under CAS, timing differences could have a material adverse effect on our cash flow.

Our business could be negatively impacted by security threats and other disruptions.

As a U.S. defense contractor, we face various security threats, including threats to the physical security of our facilities and employees, cyber security attacks to our information technology infrastructure and attempts to gain access to our proprietary or classified information as well as the proprietary or classified information of our customers. Although we utilize various procedures and controls to monitor, deter and mitigate these threats, these procedures and controls may not be sufficient to prevent disruptions in mission critical systems, the unauthorized release of confidential, sensitive or classified information and the corruption of data. Accordingly, any significant operational delays, or any destruction, manipulation or improper use of our data or of our customers, information systems or networks could adversely affect our financial results and damage the reputation for our products and services.

Our sales to certain international customers expose us to risks associated with operating internationally.

For the year ended December 31, 2013, sales to international customers, excluding our international sales made under FMS agreements directly between the U.S. Government and allied international governments, represented approximately 17% of our consolidated sales. Consequently, our businesses are subject to a variety of risks that are specific to international operations, including the following:

- export regulations that could erode profit margins or restrict exports;
- compliance with the U.S. Foreign Corrupt Practices Act and similar non-U.S. regulations;
- the burden and cost of compliance with foreign laws, treaties and technical standards and changes in those regulations;
- contract award and funding delays;
- potential restrictions on transfers of funds;
- currency fluctuations;
- import and export duties and value added taxes;

- transportation delays and interruptions;
- uncertainties arising from international local business practices and cultural considerations; and
- potential military conflicts and political risks.

While we have and will continue to adopt measures to reduce the potential impact of losses resulting from the risks of our international business, we cannot ensure that such measures will be adequate.

If we are unable to attract and retain key management and personnel, we may become unable to operate our business effectively.

Our future success depends to a significant degree upon the continued contributions of our management, and our ability to attract and retain highly qualified management and technical personnel, including employees who have U.S. Government security clearances, particularly clearances of top-secret and above. We do not maintain any key person life insurance policies for members of our management. We face competition for management and technical personnel from other companies and organizations. Failure to attract and retain such personnel would damage our future prospects.

Environmental laws and regulations may subject us to significant liability.

Our operations are subject to various U.S. federal, state and local as well as certain foreign environmental laws and regulations within the countries in which we operate relating to the discharge, storage, treatment, handling, disposal and remediation of certain materials, substances and wastes used in our operations.

New laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements may require us to incur a significant amount of additional costs in the future and could decrease the amount of cash flow available to us for other purposes, including capital expenditures, research and development and other investments and could have a material adverse effect on our business, financial condition, results of operations, cash flows and future prospects.

Our business acquisition strategy involves risks, and we may not successfully implement our strategy.

We opportunistically seek to acquire businesses that enhance our capabilities and add new technologies, products, services, programs, contracts, and customers to our existing businesses. We may not be able to continue to identify acquisition candidates on commercially reasonable terms or at all. If we make additional business acquisitions, we may not realize the benefits anticipated from these acquisitions, including sales growth, cost synergies and improving margins. Furthermore, we may not be able to obtain additional financing for business acquisitions, since such additional financing could be restricted or limited by the terms of our debt agreements or due to unfavorable capital market conditions.

The process of integrating the operations of acquired businesses into our existing operations may result in unforeseen difficulties and may require significant financial and managerial resources that would otherwise be available for the ongoing development or expansion of our existing operations. Possible future business acquisitions could result in the incurrence of additional debt and related interest expense and contingent liabilities, each of which could result in an increase to our already significant level of outstanding debt, as well as more restrictive covenants.

We consider and may enter into strategic business acquisitions on an ongoing basis and may be evaluating acquisitions or engaging in acquisition negotiations at any given time. We regularly evaluate potential acquisitions and joint venture transactions and have not entered into any agreements with respect to any material transactions at this time. Furthermore, in certain of our business acquisitions we have assumed all claims against and liabilities of the acquired business, including both asserted and unasserted claims and liabilities.

Our Amended and Restated Revolving Credit Facility and Senior Notes restrict our ability to finance our future operations and, if we are unable to meet our financial ratios, could cause our existing debt to be accelerated.

Our Amended and Restated Revolving Credit Facility and Senior Notes contain certain significant covenants that, among other things, include, depending on the debt instrument, restrictions on our ability to:

- sell assets;
- incur more indebtedness;

- create liens;
- make certain investments or business acquisitions;
- engage in business mergers or consolidations; and
- engage in certain transactions with subsidiaries and affiliates.

These restrictions could impair our ability to finance our future operations or capital needs or engage in other business activities that may be in our interest. In addition, our Amended and Restated Revolving Credit Facility also requires us to maintain compliance with certain financial ratios, including (1) total consolidated earnings before interest, taxes, depreciation and amortization to total consolidated cash interest expense, (2) total consolidated funded indebtedness less designated cash balances to total consolidated earnings before interest, taxes, depreciation and amortization, and (3) consolidated senior indebtedness less designated cash balances to consolidated earnings before interest, taxes, depreciation and amortization. Our ability to comply with these ratios and covenants may be affected by events beyond our control. A breach of any of these agreements or our inability to comply with the required financial ratios or covenants could result in a default under those debt agreements. In the event of any such default, the lenders under those debt agreements could elect to declare all outstanding debt, accrued interest and fees to be due and immediately payable.

For further discussion of our financial ratios, debt agreements and other payment restrictions, see Note 10 to our audited consolidated financial statements.

Our significant level of debt and our ability to make payments on or service our indebtedness may adversely affect our financial and operating activities or our ability to incur additional debt.

At December 31, 2013, we had approximately $3,639 million in aggregate principal amount of outstanding debt and the availability of substantially all of our Amended and Restated Revolving Credit Facility which expires on February 3, 2017. In the future, we may increase our borrowings, subject to any limitations imposed on us by our debt agreements. The first scheduled maturity of our existing debt is our $500 million aggregate principal amount of our 3.95% Senior Notes maturing November 15, 2016. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt and Note 10 to our audited consolidated financial statements.

Our ability to make scheduled payments of principal and interest on our indebtedness and to refinance our existing debt depends on our future financial performance as well as our ability to access the capital markets, and the relative attractiveness of available financing terms. We do not have complete control over our future financial performance because it is subject to economic, political, financial (including credit market conditions), competitive, regulatory and other factors affecting the aerospace and defense industry, as well as commercial industries in which we operate. It is possible that in the future our businesses may not generate sufficient cash flow from operations to allow us to service our debt and make necessary capital expenditures. If this situation occurs, we may have to reduce costs and expenses, sell assets, restructure debt or obtain additional equity capital. We may not be able to do so in a timely manner or upon acceptable terms in accordance with the restrictions contained in our debt agreements. Our level of indebtedness has important consequences to us. These consequences may include:

- requiring a substantial portion of our net cash flow from operations to be used to pay interest and principal on our debt and therefore be unavailable for other purposes, including acquisitions, capital expenditures, paying dividends to our shareholders, repurchasing shares of our common stock, research and development and other investments;

- limiting our ability to obtain additional financing for acquisitions, working capital, investments or other expenditures, which, in each case, may limit our ability to carry out our acquisition strategy;

increasing interest expense due to higher interest rates on our Amended and Restated Revolving Credit Facility as it has a variable interest rate;

heightening our vulnerability to downturns in our business or in the general economy and restricting us from making acquisitions, introducing new technologies and products or exploiting business opportunities; and

impacting debt covenants that limit our ability to borrow additional funds or dispose of assets. Failure to comply with such covenants could result in an event of default which, if not cured or waived, could result in the acceleration of our outstanding indebtedness.

Additionally, on December 31, 2013, we had $8,181 million of contractual obligations (including outstanding indebtedness). For a detailed listing of the components of our contractual obligations, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations.

The Company s spin-off of Engility could result in substantial tax liability to the Company and its shareholders.

We received an Internal Revenue Service (IRS) Ruling stating that L-3 and its shareholders would not recognize any taxable income, gain or loss for U.S. federal income tax purposes as a result of the spin-off of Engility. In addition, we received an opinion of counsel that the spin-off satisfies certain requirements for tax-free treatment that are not covered in the IRS Ruling; however, an opinion of counsel is not binding on the IRS. Accordingly, the IRS or the courts may reach conclusions with respect to the spin-off that are different from the conclusions reached in the opinion of counsel. Moreover, both the IRS Ruling and the opinion of counsel are based on certain factual statements and representations made by us, which, if incomplete or untrue in any material respect, could invalidate the IRS Ruling or opinion of counsel.

If, notwithstanding receipt of the IRS Ruling and opinion of counsel, the spin-off and certain related transactions were determined to be taxable, then we would be subject to a substantial tax liability. In addition, if the spin-off were taxable, each holder of our common stock who receives shares of Engility would generally be treated as receiving a taxable distribution of property in an amount equal to the fair market value of the shares of Engility received.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

At December 31, 2013, we operated in 374 locations consisting of manufacturing facilities, administration, research and development and other properties throughout the United States and internationally. Of these, we owned 35 locations consisting of approximately 5.6 million square feet and leased space at 339 locations consisting of approximately 14.7 million square feet.

Our reportable segments have major operations at the following locations:

C^{3}ISR   Camden, New Jersey; Greenville and Rockwall, Texas; and Salt Lake City, Utah.

Electronic Systems   Phoenix and Tempe, Arizona; Anaheim, San Carlos, San Diego, San Leandro, Simi Valley, Sylmar and Torrance, California; Orlando, Sarasota and St. Petersburg, Florida; Ayer and Northampton, Massachusetts; Grand Rapids and Muskegon, Michigan; Londonderry, New Hampshire; Budd Lake, New Jersey; Albuquerque, New Mexico; Binghamton and Hauppauge, New York; Cincinnati and Mason, Ohio; Tulsa, Oklahoma; Philadelphia, Pittsburgh and Williamsport, Pennsylvania; Arlington, Carrollton, Garland and Plano, Texas; Norfolk, Virginia; Ontario, Canada; Elmenhorst, and Hamburg, Germany; Bologna, Italy; and Crawley and Tewkesbury, U.K.

P&LS   Huntsville, Alabama; Crestview, Florida; Madison, Mississippi; Waco, Texas; and Quebec, Canada.

NSS   Annapolis, Maryland and Reston, Virginia.

Corporate and other locations   New York, New York and Arlington, Virginia.

A summary of square footage by reportable segment as of December 31, 2013 is presented below.

	Leased	Owned	Total
		(Square feet in millions)	
C^{3}ISR	5.3		5.3
Electronic Systems	7.5	3.9	11.4
P&LS	1.0	1.7	2.7
NSS	0.8		0.8
Corporate	0.1		0.1
Total	14.7	5.6	20.3

Management believes all of our properties have been well maintained, are in good condition, and are adequate to meet our current contractual requirements.

Item 3. Legal Proceedings

The information required with respect to this item can be found in Note 19 to our audited consolidated financial statements and is incorporated by reference into this Item 3.

Item 4. Mine Safety Disclosures

None.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of L-3 Holdings is traded on the New York Stock Exchange (NYSE) under the symbol LLL . On February 14, 2014, the number of holders of L-3 Holdings common stock was approximately 27,917. On February 19, 2014 the closing price, as reported by the NYSE, was $113.67 per share.

The table below sets forth the high and low closing price of L-3 Holdings common stock as reported on the NYSE and the amount of dividends paid per share during the past two calendar years.

	Dividends Paid		Closing Price (High-Low)			
	2013	2012	2013		2012	
Common Stock Dividends Paid and Market Prices[1]						
First Quarter	$ 0.55	$ 0.50	$ 81.21	$74.86	$ 71.34	$66.91
Second Quarter	0.55	0.50	87.37	80.03	74.01	67.11
Third Quarter	0.55	0.50	96.09	85.06	74.45	68.27
Fourth Quarter	0.55	0.50	107.13	91.94	77.91	72.10
Year Ended December 31	$ 2.20	$ 2.00	$ 107.13	$74.86	$ 77.91	$66.91

(1) The stock prices in the table above on or prior to July 17, 2012, the date of the Engility spin-off, have not been adjusted for the impact of the spin-off.

On February 11, 2014, L-3 Holdings announced that its Board of Directors increased L-3 Holdings regular quarterly cash dividend by 9% to $0.60 per share, payable on March 17, 2014, to shareholders of record at the close of business on March 3, 2014. L-3 Holdings relies on dividends received from L-3 Communications to generate the funds necessary to pay dividends on L-3 Holdings common stock.

Issuer Purchases of Equity Securities

The following table provides information about 2013 fourth quarter repurchases of L-3 Holdings common stock that are registered pursuant to Section 12 of the Exchange Act. Repurchases are made from time to time at management s discretion in accordance with applicable federal securities laws. All share repurchases of L-3 Holdings common stock have been recorded as treasury shares.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly	Maximum Number (or Approximate Dollar Value) of

				Announced Plans or Programs		**Shares That May Yet Be Purchased Under The Plan or Program[1] (in millions)**
September 28 October 31, 2013	713,209	$	94.40	713,209	$	1,197
November 1 30, 2013	1,053,949		101.50	1,053,949	$	1,090
December 1 31, 2013	2,156,570		102.77	2,156,570	$	868
Total	3,923,728	$	100.91	3,923,728		

(1) The share repurchases described in the table above were made pursuant to the $1.5 billion share repurchase program authorized by L-3 Holdings Board of Directors on February 5, 2013, which expires on June 30, 2015.

L-3 Holdings repurchased 928,040 shares of its common stock at an average price of $107.52 per share for an aggregate amount of approximately $100 million from January 1, 2014 through February 19, 2014.

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The graph below compares the cumulative total returns of our common stock with the cumulative total return of the Standard & Poor s 500 Composite Stock Index and the Standard & Poor s 1500 Aerospace & Defense Index, for the period from December 31, 2008 to December 31, 2013. These figures assume that all dividends paid over the performance period were reinvested. On July 17, 2012, we completed the Engility spin-off. Our shareholders received one share of Engility common stock for every six shares of our common stock held on the record date (July 16, 2012). The effect of the spin-off is reflected in the cumulative total return as a reinvested dividend for the year ended December 31, 2012. The figures also assume that the starting value of each index and the investment in our common stock was $100 on December 31, 2008.

We are one of the companies included in the Standard & Poor s 1500 Aerospace & Defense Index and the Standard & Poor s 500 Composite Stock Index. The starting point for the measurement of our common stock cumulative total return was our stock price of $73.78 per share on December 31, 2008. The graph is not, and is not intended to be, indicative of future performance of our common stock.

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Item 6. Selected Financial Data

The selected financial data presented below is derived from our audited consolidated financial statements and has been adjusted to reflect the spin-off of Engility and related classification of its assets, liabilities, results of operations and cash flows as discontinued operations.

	Year Ended December 31,				
	2013	2012	2011[1]	2010	2009
	(in millions, except per share data)				
Statement of Operations Data:					
Net sales	$ 12,629	$ 13,146	$ 13,158	$ 13,390	$ 13,147
Operating income	$ 1,258	$ 1,351	$ 1,399	$ 1,485	$ 1,367
Goodwill impairment charge			43		
Segment operating income	$ 1,258	$ 1,351	$ 1,442	$ 1,485	$ 1,367
Operating margin	10.0%	10.3%	10.6%	11.1%	10.4%
Segment operating margin	10.0%	10.3%	11.0%	11.1%	10.4%
Interest expense	$ (177)	$ (184)	$ (204)	$ (236)	$ (245)
Interest and other income, net	$ 15	$ 8	$	$ 21	$ 19
Debt retirement charge	$	$ (13)	$ (35)	$ (18)	$ (10)
Income from continuing operations before income taxes	$ 1,096	$ 1,162	$ 1,160	$ 1,252	$ 1,131
Provision for income taxes	(309)	(374)	(296)	(428)	(374)
Income from continuing operations	787	788	864	824	757
Income from discontinued operations, net of income tax		32	104	142	154
Net income	787	820	968	966	911
Net income attributable to noncontrolling interests	(9)	(10)	(12)	(11)	(10)
Net income attributable to L-3	$ 778	$ 810	$ 956	$ 955	$ 901

Earnings per share allocable to L-3 Holdings common shareholders:										
Basic:										
Continuing operations	$	8.70	$	8.12	$	8.17	$	7.09	$	6.34
Discontinued operations				0.29		0.97		1.22		1.31
Basic earnings per share	$	8.70	$	8.41	$	9.14	$	8.31	$	7.65
Diluted:										
Continuing operations	$	8.54	$	8.01	$	8.08	$	7.04	$	6.30
Discontinued operations				0.29		0.95		1.21		1.31
Diluted earnings per share	$	8.54	$	8.30	$	9.03	$	8.25	$	7.61
L-3 Holdings weighted average common shares outstanding:										
Basic		89.4		96.3		104.4		114.3		116.8
Diluted		91.1		97.6		105.6		115.1		117.4
Cash dividends paid per common share	$	2.20	$	2.00	$	1.80	$	1.60	$	1.40

(1) The year ended December 31, 2011 includes: (1) a tax benefit of $78 million, or $0.74 per diluted share, for a net reversal of amounts previously accrued related to tax years for which the statutes of limitations has expired, (2) a non-cash goodwill impairment charge of $43 million ($42 million after income taxes, or $0.40 per diluted share), due to a decline in the estimated fair value of our Marine Services business, and (3) $14 million ($8 million after income taxes, or $0.08 per diluted share), for our

portion of an impairment charge for long-lived assets at an equity method investment. The goodwill impairment charge is included in consolidated operating income, but excluded from segment operating income because the charge was excluded by management for purposes of assessing segment operating performance.

	Year Ended December 31,				
	2013	2012	2011	2010	2009
			(in millions)		
Balance Sheet Data (at year end):					
Working capital[1]	$ 2,126	$ 1,958	$ 2,406	$ 2,163	$ 2,381
Total assets	14,009	13,791	15,508	15,451	14,875
Long-term debt	3,630	3,629	4,125	4,126	4,112
Equity	6,098	5,543	6,724	6,855	6,660
Cash Flow Data:					
Net cash from operating activities from continuing operations	$ 1,263	$ 1,231	$ 1,231	$ 1,270	$ 1,147
Net cash used in investing activities from continuing operations	(261)	(200)	(199)	(944)	(262)
Net cash used in financing activities from continuing operations	(849)	(1,527)	(1,119)	(917)	(1,004)

(1) Based on continuing operations.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview and Outlook

L-3 s Business

L-3 is a prime contractor in Intelligence, Surveillance and Reconnaissance (ISR) systems, Command, Control, Communications (C^3) systems, platform and logistics solutions for aircraft, maritime vessels and ground vehicles, and national security solutions. L-3 is also a leading provider of a broad range of electronic systems used on military and commercial platforms. Our customers include the United States (U.S.) Department of Defense (DoD) and its prime contractors, U.S. Government intelligence agencies, the U.S. Department of Homeland Security (DHS), U.S. Department of State (DoS), allied international governments, and domestic and international commercial customers.

We have the following four reportable segments: (1) C^3ISR, (2) Electronic Systems, (3) Platform Logistics Solutions (P&LS), and (4) National Security Solutions (NSS). Financial information with respect to each of our segments is included in Note 22 to our audited consolidated financial statements. C^3ISR provides products and services for the global ISR (Intelligence, Surveillance and Reconnaissance) market, C^3 systems, networked communication systems and secure communications products. We believe that these products and services are critical elements for a substantial number of major command, control and communication, intelligence gathering and space systems. These products and services are used to connect a variety of airborne, space, ground and sea-based communication systems and are used in the transmission, processing, recording, monitoring, and dissemination functions of these communication systems. Electronic Systems provides a broad range of products and services, including components, products, subsystems, systems, and related services to military and commercial customers in several niche markets across several business areas. These business areas include marine & power systems, microwave, sensor systems, simulation & training, aviation products, warrior systems, precision engagement, security & detection and space & propulsion. P&LS provides modernization, upgrades and sustainment, maintenance and logistics support solutions for military and various government aircraft and other platforms. We sell these services primarily to the DoD, the DND and other allied international governments. NSS provides a full range of cyber security, intelligence, enterprise IT and security solutions services to the DoD, U.S. Government intelligence agencies, federal civilian agencies and allied international governments.

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On July 17, 2012, L-3 completed the spin-off of its subsidiary, Engility Holdings, Inc. (Engility) to L-3 s shareholders. As a result of the spin-off, the results of operations and cash flows of the Engility businesses have been classified as discontinued operations for the years ended December 31, 2012 and 2011. References to financial data are to L-3 s continuing operations, unless specifically noted. See Spin-off of Engility within this section for additional information.

We generated sales of $12,629 million and $13,146 million for the years ended December 31, 2013 and 2012 and our primary customer was the DoD. The table below presents a summary of our sales by end customer and the percent contributed by each to our total sales.

	2013 Sales (in millions)	2013 % of Total Sales	2012 Sales (in millions)	2012 % of Total Sales
Air Force	$ 3,354	27%	$ 3,599	27%
Army	2,400	19	2,824	22
Navy/Marines	1,800	14	1,897	14
Other Defense	1,030	8	1,056	8
Total DoD	$ 8,584	68%	$ 9,376	71%
Other U.S. Government	584	5	650	5
Total U.S. Government	$ 9,168	73%	$ 10,026	76%
International (foreign governments)	1,753	14	1,463	11
Commercial international	1,061	8	985	8
Commercial domestic	647	5	672	5
Total sales	$ 12,629	100%	$ 13,146	100%

Most of our contracts (revenue arrangements) with the U.S. Government are subject to U.S. Defense Contract Audit Agency audits and various cost and pricing regulations, and include standard provisions for termination for the convenience of the U.S. Government. Multiyear U.S. Government contracts and related orders are subject to cancellation if funds for contract performance for any subsequent year become unavailable. International government contracts generally include comparable provisions relating to termination for the convenience of the relevant international government.

Business Environment

U.S. Government Markets. Sales to U.S. Government customers represented 73% of our 2013 sales, and were primarily to DoD customers, which comprised 68% of our sales. Therefore, our annual sales are generally highly correlated to changes in U.S. Government spending levels, especially DoD budget levels.

The DoD budget peaked in the fiscal year ended September 30, 2010 (FY 2010) at $690 billion and has declined since. The total DoD budget for FY 2013 was $584 billion, which declined 10% compared to the FY 2012 budget, with the base budget 5% lower than FY 2012 and the Overseas Contingency Operations (OCO) budget 29% lower than FY 2012. The total DoD enacted budget for FY 2014 is $583 billion, which is $1 billion lower than FY 2013.

The enacted FY 2013 and FY 2014 DoD budgets comply with the sequestration cuts required by the Budget Control Act of 2011 (BCA), as amended by The American Taxpayer Relief Act (ATRA), which was enacted on January 2, 2013. ATRA delayed the effective date of the BCA sequester cuts by two months to March 1, 2013 and reduced the sequester cuts to the FY 2013 DoD budget by $9 billion to approximately $41 billion. The actual FY 2013 sequester cuts announced by the DoD in June 2013 were further reduced by the Administration to approximately $37 billion, with $6 billion of such reductions applied to prior-year unobligated DoD budget balances. This resulted in a $31 billion sequester cut to the total enacted DoD budget for FY 2013 as compared to the FY 2013 Proposed Budget Request (PBR), submitted to Congress in February 2012, and also compares favorably to the originally anticipated $50 billion sequester cut to the FY 2013 DoD budget. After ATRA, the sequestration cuts for the FY 2014 DoD budget were supposed to be $46 billion and approximately $52 billion per year from FY 2015 to FY 2018.

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On December 26, 2013, President Obama signed the Bipartisan Budget Act of 2013 (BBA) into law, which reduced DoD budget uncertainty for FY 2014 and FY 2015 by increasing BCA spending caps, and lowering sequester cuts to the DoD base budget by $22 billion for FY 2014 and $9 billion for FY 2015. Additionally, Congress also increased the FY 2014 OCO budget by $6 billion more than the amount included in the FY 2014 PBR.

The table below presents the FY 2011 through FY 2014 enacted DoD budgets, the FY 2015 DoD budget adjusted for the BBA, and the Administration s DoD budget projections for FY 2016 to FY 2018, as provided in the FY 2014 PBR. The PBR, submitted to Congress in April 2013, reduced the annual sequestration cuts by approximately $52 billion each year for FY 2015 through FY 2018.

	DoD Budget (includes Sequestration Cuts/BBA)			Annual Total Budget
Fiscal Year (Ending September 30)	**Base**	**OCO**	**Total**	**Change**
		(in billions)		
2011	$ 528	$ 159	$ 687	0%
2012	$ 531	$ 115	$ 646	-6%
2013	$ 502	$ 82	$ 584	-10%
2014	$ 498	$ 85	$ 583	0%
2015	$ 499	$ 37	$ 536	-8%
2016	$ 499	$ 37	$ 536	0%
2017	$ 508	$ 37	$ 545	+2%
2018	$ 517	$ 37	$ 554	+2%

While we believe that L-3 is well positioned to benefit from several of the DoD s focus areas, declining DoD budgets will generally pressure and possibly reduce funding for some of our contracts, which could reduce our sales and operating income and negatively impact our results of operations and cash flows. Uncertainty continues to exist, even with the recent passage of the BBA, regarding how sequestration cuts will be implemented in future fiscal year DoD budgets and what challenges this may present for the defense industry, including L-3, our customers and suppliers. Furthermore, while members of Congress and the Administration continue to discuss various options to address sequestration and the U.S. Government s overall fiscal challenges, we cannot predict the outcome of these efforts. We do not believe the FY 2014 sequester cuts to the DoD budget will have a significant negative impact on our results of operations or cash flows for the year ending December 31, 2014. However, depending on how future sequestration cuts are implemented, we believe that sequestration could have a material, negative impact on our results of operations and cash flows in the future. In addition, declining DoD budgets due to sequestration or other reductions could also potentially trigger non-cash goodwill impairment charges depending on how these reductions impact each of our reporting units. See Critical Accounting Policies Goodwill and Identifiable Intangible Assets within this section.

International and Commercial Markets. Sales to end customers other than the U.S. Government represented 27% of our 2013 sales. These sales are generally affected by international government security and military priorities, as well as the fiscal situations of our international government end customers, global economic conditions for our commercial end markets and our competitive success in winning new business and increasing market share.

Key Performance Measures

The primary financial performance measures that we use to manage our businesses and monitor results of operations are sales and operating income trends. Management believes that these financial performance measures are the primary growth drivers for our earnings and cash flow per common share. Generally, in evaluating our businesses and contract performance, we focus on net sales, operating income and operating margin, and not by type or amount of operating costs.

One of our primary business objectives is to increase sales from organic growth and select business acquisitions. We define organic sales growth as the increase or decrease in sales for the current period compared to the prior period, excluding sales in the: (1) current period from business acquisitions that are included in our actual results of operations for less than twelve months, and (2) prior period from business and product line divestitures that are included in our actual results of operations for the twelve-month period prior to the divestiture date. We expect to supplement, strengthen and enhance our existing businesses by selectively acquiring businesses that: (1) add important new technologies and products, (2) provide access to select customers, programs and contracts and (3) provide attractive returns on investment. Another important financial performance measure that we use is operating margin, which we define as operating income as a percentage of sales, because sales growth combined with operating margin levels determine our operating income levels.

Sales Trends. For the year ended December 31, 2013, consolidated net sales of $12,629 million declined by 3.9%, comprised of organic sales decline of 4.5%, partially offset by net sales from business acquisitions of 0.6%, compared to the year ended December 31, 2012. Our average annual sales growth for the five years ended December 31, 2013 was 0.8%, as average annual organic sales declined by approximately 0.3% and average annual sales growth from business acquisitions, net of divestitures, was approximately 1.1%. See Results of Operations , including segment results below for further discussion of sales.

For the years ended December 31, 2013, 2012, and 2011, our largest contract (revenue arrangement) in terms of annual sales was the Fort Rucker Maintenance Support contract with the U.S. Army Aviation and Missile Life Cycle Management Command (AMCOM), which is included in our P&LS segment. Under this contract, which generated approximately 4% of our 2013, 2012 and 2011 sales, we provide maintenance, logistics and other related sustainment support services for rotary wing aircraft assigned to Fort Rucker and satellite units in Alabama. Our period of performance, including unexercised annual options, continues through September 30, 2017.

We derived approximately 68% of our 2013 sales from DoD customers and, as a result, our sales are highly correlated to DoD budget levels. DoD budgets are a function of several factors and uncertainties beyond our control, including, but not limited to, changes in U.S. procurement policies, budget considerations, current and future economic conditions, presidential administration priorities, U.S. military engagements, changing national security and defense requirements, geo-political developments, actual fiscal year congressional appropriations for defense budgets, and sequestration and other DoD budget reductions. Any of these factors could result in a significant increase, decrease or redirection of DoD budgets and impact L-3 s future results of operations, including our sales and operating income growth rates. Additionally, L-3 s future results of operations will be affected by our ability to retain our existing business, including our revenue arrangements with DoD customers, and to successfully re-compete for existing business and compete for new business, which largely depends on: (1) our successful performance on existing contracts, (2) the effectiveness and innovation of our technologies and research and development activities, (3) our ability to offer better program performance than our competitors at an affordable cost, and (4) our ability to retain our employees and hire new ones, particularly those employees who have U.S. Government security clearances. We expect our 2014 consolidated sales to decline by approximately 5% compared to 2013, primarily due to the declines in DoD budgets.

Segment Operating Income Trends. For the year ended December 31, 2013, our segment operating income was $1,258 million, a decrease of 7% from $1,351 million for the year ended December 31, 2012. Our segment operating income as a percentage of sales (segment operating margin) was 10.0% for the year ended December 31, 2013, a decrease of 30 basis points from 10.3% for the year ended December 31, 2012. See Results of Operations , including segment results below for a discussion of operating margin.

While we continue to undertake cost management actions, such as reducing our indirect costs, resizing select business units, and improving our productivity and contract performance in an effort to maintain or even increase operating margin, these efforts may not be successful. Changes in the competitive environment and DoD procurement practices, reductions to the DoD budget, lower consolidated sales, and changes in our annual pension expense and severance costs could result in lower operating margin. Furthermore, select business acquisitions and select new business, including contract renewals and new contracts, could have lower operating margins than L-3 s operating margins on existing business and contracts. While our 2013 consolidated operating margin declined compared to 2012, we expect our 2014 annual consolidated operating margin to increase as compared to 2013, primarily due to lower expected pension expense.

Spin-off of Engility. On July 17, 2012, L-3 completed the spin-off of its subsidiary, Engility, to L-3 s shareholders. The spin-off was a tax-free distribution to L-3 shareholders for U.S. federal tax purposes, except for cash received in lieu of fractional shares. L-3 shareholders of record on July 16, 2012 (the record date) received one share of Engility common stock for every six shares of L-3 common stock held on the record date. Engility began trading as an independent publicly traded company on the New York Stock Exchange on July 18, 2012.

In connection with the spin-off, Engility made a cash distribution of $335 million to L-3. We used a portion of the proceeds to redeem $250 million of our 6 $^3/_8$% Senior Subordinated Notes due 2015 (6 $^3/_8$% 2015 Notes) on July 26, 2012 and the remaining proceeds were used primarily to repurchase outstanding shares of our common stock. There was no gain or loss recognized by us as a result of the spin-off transaction.

Prior to the completion of the spin-off, L-3 and Engility entered into a Distribution Agreement dated July 16, 2012 and several other agreements that govern certain aspects of our relationship with Engility following the spin-off. These agreements generally provide that each party is responsible for its respective assets, liabilities and obligations, including employee benefits, insurance and tax-related assets and liabilities, following the spin-off, whether accrued or contingent. The agreements also describe certain services that L-3 provided to Engility that were substantially completed by December 31, 2013.

As a result of the spin-off, the assets, liabilities, non-controlling interest, results of operations and cash flows of the Engility businesses have been classified as discontinued operations for all periods presented. We incurred transaction expenses in connection with the spin-off of $19 million ($14 million after income taxes) for the year ended December 31, 2012 and $9 million ($7 million after income taxes) for the year ended December 31, 2011, which have been included in discontinued operations. In addition, we allocated interest expense for debt not directly attributable or related to L-3 s other operations of $14 million and $31 million to discontinued operations for the years ended December 31, 2012 and 2011, respectively. Interest expense was allocated in accordance with the accounting standards for discontinued operations and was based on the ratio of Engility net assets to the sum of: (1) total L-3 consolidated net assets and (2) L-3 consolidated total debt.

Engility s statement of operations data, which has been classified as discontinued operations, is provided in the table below. See Note 4 to the audited consolidated financial statements for additional information.

	January 1 to July 17, 2012	Year Ended December 31, 2011
	(in millions)	
Product and service revenues	$ 911	$ 2,011
Operating income from discontinued operations before income taxes	68	199
Interest expense allocated to discontinued operations	(14)	(31)
Income from discontinued operations before income taxes	$ 54	$ 168
Income tax expense	(22)	(64)
Income from discontinued operations, net of income taxes	$ 32	$ 104

Net income from discontinued operations attributable to noncontrolling interests		(4)		(3)
Net income from discontinued operations attributable to L-3	$	28	$	101

2012 Amended and Restated Revolving Credit Facility. On February 3, 2012, we amended and restated our $1 billion Revolving Credit Facility, which extended the expiration date to February 3, 2017. The terms of the Amended and Restated Revolving Credit Facility are substantially consistent with the terms of this facility prior to its amendment and restatement except that: (1) provisions that previously limited the ability of L-3 Communications to pay dividends, repurchase L-3 Holdings common stock and make other distributions with respect to any capital stock were eliminated, (2) a provision that previously limited the ability of L-3 Communications to make investments in L-3 Holdings was made less restrictive and (3) the cost of borrowings, loan commitment fees and letter of credit fees were reduced. In addition, the Amended and Restated Revolving

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Credit Facility provides for uncommitted incremental revolving facilities and additional term loan facilities in an aggregate principal amount of up to $500 million. See Note 10 of our audited consolidated financial statements for additional information regarding the amendment of our $1 billion Amended and Restated Revolving Credit Facility.

Debt Repurchases, Issuances and Redemptions. On July 26, 2012, (the redemption date), L-3 Communications used a portion of the proceeds from the spin-off of Engility to redeem $250 million of L-3 Communications 6 3/8% Senior Subordinated Notes due 2015 (6 3/8% 2015 Notes) at a redemption price of 102.125%, plus accrued and unpaid interest, up to but not including the redemption date. In connection with the redemption of the 6 3/8% 2015 Notes, the Company recorded a debt retirement charge of $8 million ($5 million after income tax, or $0.05 per diluted share).

On October 15, 2012 (the redemption date), L-3 Communications redeemed the remaining outstanding $250 million of its 6 3/8% 2015 Notes at a redemption price of 101.063%, plus accrued and unpaid interest, up to but not including the redemption date. In connection with the redemption, the Company recorded a debt retirement charge of approximately $5 million ($3 million after income tax, or $0.03 per diluted share).

On February 2, 2011, we repurchased approximately $11 million of our CODES as a result of the exercise by the holders of their contractual right to require us to repurchase their CODES.

On February 7, 2011, L-3 Communications issued $650 million in principal amount of 4.95% Senior Notes that mature on February 15, 2021 (2021 Senior Notes). The 2021 Senior Notes were issued at a discount of $4 million. On March 9, 2011, the net cash proceeds from this offering, together with cash on hand, were used to redeem L-3 Communications $650 million 5 7/8% Senior Subordinated Notes due January 15, 2015 (5 7/8% 2015 Notes). In connection with the redemption of the 5 7/8% 2015 Notes, we recorded a debt retirement charge of $18 million ($11 million after income taxes, or $0.10 per diluted share).

On November 22, 2011, L-3 Communications issued $500 million in principal amount of 3.95% Senior Notes that mature on November 15, 2016 (2016 Senior Notes). The 2016 Senior Notes were issued at a discount of $4 million. On December 22, 2011, the net proceeds from this offering, together with cash on hand, were used to redeem $500 million of L-3 Communications 6 3/8% 2015 Notes. In connection with the redemption of the 6 3/8% 2015 Notes, we recorded a debt retirement charge of $17 million ($10 million after income tax, or $0.10 per diluted share).

Q4 2011 Items. Our 2011 results were impacted by the items discussed below, which increased net income attributable to L-3 by $28 million and diluted earnings per share by $0.26 (collectively referred to as the Q4 2011 Items):

- A tax benefit of $78 million, or $0.74 per diluted share, for a net reversal of amounts previously accrued related to tax years for which the statutes of limitations has expired; and

- Non-cash impairment charges of $57 million ($50 million after income taxes), or $0.48 per diluted share. The impairment charges include: (1) a goodwill impairment charge of $43 million, ($42 million after income taxes, or $0.40 per diluted share), which is included in operating income, and (2) $14 million, ($8 million after income taxes, or $0.08 per diluted share), which is included in interest and other income, net, for our portion of an impairment charge for long-lived assets at an equity method investment. The goodwill impairment charge was due to a decline in the estimated fair value of the Marine Services business, which is part of the Electronic Systems segment, as a result of a decline in its projected future cash flows.

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Business Acquisitions and Divestitures

As discussed above, one aspect of our strategy is to selectively acquire businesses that add new products and technologies, or provide access to select customers, programs and contracts. We intend to continue acquiring select businesses for reasonable valuations that will provide attractive returns to L-3. Our business acquisitions, depending on their contract-type, sales mix or other factors, could reduce L-3 s consolidated operating margin while still increasing L-3 s operating income, earnings per share, and net cash from operating activities. In addition, we may also dispose of certain businesses if we determine that they no longer fit into L-3 s overall business strategy and we are able to receive an attractive price.

Acquisitions. The table below summarizes the acquisitions that we have completed during the years ended December 31, 2011, 2012, and 2013 referred to herein as business acquisitions. See Note 4 to our audited consolidated financial statements for further information regarding our business acquisitions. During the year ended December 31, 2013, we used net cash of $62 million primarily for business acquisitions, including an earnout payment and a purchase price adjustment for acquisitions completed prior to January 1, 2013.

Business Acquisitions	**Date Acquired**	**Purchase Price[(1)] (in millions)**
2011		
Communications and engineering business of ComHouse Wireless L.P.	July 1, 2011	$ 13
Cargo radiation screening business of Detector Network International (DNI)	October 28, 2011	5[(2)]
Total 2011		$ 18
2012		
L-3 KEO	February 6, 2012	$ 205
MAVCO, Inc.	April 13, 2012	10
Link Simulation & Training U.K. Limited	August 6, 2012	134[(3)]
Total 2012		$ 349
2013		
Mustang Technology Group, L.P. (Mustang)	December 19, 2013	54
Total 2013		$ 54

(1) The purchase price represents the contractual consideration for the acquired business, excluding adjustments for net cash acquired and acquisition transaction costs.

(2) Excludes additional purchase price, not to exceed $10 million, which is contingent upon the post acquisition financial performance of DNI through December 31, 2014. See Note 4 to our audited consolidated financial statements for additional information on the additional purchase price for this acquisition.

(3) Excludes additional purchase price of $6 million for a final net working capital adjustment. See note 4 to our consolidated financial statements for additional information on the final net working capital adjustment.

All of our business acquisitions are included in our consolidated results of operations from their dates of acquisition. We regularly evaluate potential business acquisitions.

Divestitures. On February 22, 2011, we divested the MOI business of Microdyne Corporation (Microdyne), which was within the Electronic Systems segment. This divestiture transaction resulted in a pre-tax loss of approximately $2 million. Microdyne s annual revenues (approximately $8 million), pre-tax income and net assets were not material for any period presented, and, therefore, these divestitures are not reported as discontinued operations.

Spin-off of Engility: On July 17, 2012, we completed the spin-off of our subsidiary, Engility Holdings, Inc. See Spin-off of Engility within this section for further discussion of the spin-off, distribution of proceeds and impact on our financial results and financial position.

Critical Accounting Policies

Our significant accounting policies are described in Note 2 to our audited consolidated financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and cost of sales during the reporting period. The most significant of these estimates and assumptions relate to contract revenue, profit and loss recognition, fair values of assets acquired and liabilities assumed in business combinations, market values for inventories reported at lower of cost or market, pension and post-retirement benefit obligations, stock-based employee compensation expense, income taxes, including the valuations of deferred tax assets, litigation reserves and environmental obligations, accrued product warranty costs and the recoverability, useful lives and valuation of recorded amounts of long-lived assets, identifiable intangible assets and goodwill. Changes in estimates are reflected in the period during which they become known. Actual amounts will differ from these estimates and could differ materially. We believe that our critical accounting estimates have the following attributes: (1) we are required to make assumptions about matters that are uncertain and require judgment at the time of the estimate; (2) use of reasonably different assumptions could have changed our estimates, particularly with respect to estimates of contract revenues and costs, and recoverability of assets, and (3) changes in the estimate could have a material effect on our financial condition or results of operations. We believe the following critical accounting policies contain the more significant judgments and estimates used in the preparation of our financial statements.

Contract Revenue Recognition and Contract Estimates. Approximately 47% of our consolidated net sales are generated from contracts (revenue arrangements) that require us to design, develop, manufacture, modify, upgrade, test and integrate complex aerospace and electronic equipment, and to provide related engineering and technical services according to the buyer s specifications. These revenue arrangements or contracts are generally fixed-price, cost-plus, or time-and-material type and are covered by accounting standards for construction-type and production-type contracts and federal government contractors. Substantially all of our cost-plus type and time-and-material type contracts are with the U.S. Government, primarily the DoD. Certain of our contracts with the U.S. Government are multi-year contracts that are funded annually by the customer, and sales on these multi-year contracts are based on amounts appropriated (funded) by the U.S. Government. Our remaining sales are accounted for in accordance with accounting standards for revenue arrangements with commercial customers.

Sales and profits on fixed-price type contracts that are covered by accounting standards for construction-type and production-type contracts and federal government contractors are substantially recognized using percentage-of-completion (POC) methods of accounting. Sales on such contracts represent approximately 38% of our consolidated net sales. Sales and profits on fixed-price production contracts under which units are produced and delivered in a continuous or sequential process are recorded as units are delivered based on their contractual selling prices (the units-of-delivery method). Sales and profits on each fixed-price production contract under which units are not produced and delivered in a continuous or sequential process, or under which a relatively few number of units are produced, are recorded based on the ratio of actual cumulative costs incurred to total estimated costs at completion of the contract multiplied by the total estimated contract revenue, less cumulative sales recognized in prior periods (the cost-to-cost method). Under both POC methods of accounting, a single estimated total profit margin is used to recognize profit for each contract over its entire period of performance, which can exceed one year.

Accounting for the sales on these fixed-price contracts requires the preparation of estimates of: (1) total contract revenue, (2) total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract s statement of work, and (3) measurement of progress towards completion. The estimated profit or loss at completion on a contract is equal to the difference between the total estimated contract revenue and the total estimated cost at completion. Under the units-of-delivery method, sales on a fixed-price type contract are recorded as the units are delivered during the period based on their contractual selling prices. Under the cost-to-cost method, sales on a fixed-price type contract are recorded at amounts equal to the ratio of actual cumulative costs incurred divided by total estimated costs at completion, multiplied by (i) the total estimated contract revenue, less (ii) the cumulative sales recognized in prior periods. The profit recorded on a contract in any period using either the units-of-delivery method or cost-to-cost method is equal to (i) the current estimated total profit margin multiplied by the cumulative sales recognized, less (ii) the amount of cumulative profit previously recorded for the contract. In the case of a contract for which the total estimated costs exceed the total estimated revenues, a loss arises, and a provision for the entire loss is recorded in the period that the loss becomes evident. The unrecoverable costs on a loss contract that are expected to be incurred in future periods are recorded as a component of other current liabilities entitled Estimated cost in excess of estimated contract value to complete contracts in process in a loss position.

Adjustments to estimates for a contract s revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained and more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur. The impact of revisions in profit (loss) estimates for all types of contracts subject to percentage-of-completion accounting are recognized on a cumulative catch-up basis in the period in which the revisions are made. Amounts representing contract change orders or claims are included in sales only when they can be reliably estimated and their realization is reasonably assured. The revisions in contract estimates, if significant, can materially affect our results of operations and cash flows, as well as reduce the valuations of receivables and inventories, and in some cases result in liabilities to complete contracts in a loss position. Aggregate net changes in contract estimates increased operating income by $106 million, or 8%, for the year ended December 31, 2013, $78 million, or 6%, for the year ended December 31, 2012, and $73 million, or 5%, for the year ended December 31, 2011.

Sales and profits on cost-plus type contracts that are covered by accounting standards for government contractors are recognized as allowable costs are incurred on the contract, at an amount equal to the allowable costs plus the estimated profit on those costs. Sales on such contracts represent approximately 9% of our consolidated net sales. The estimated profit on a cost-plus contract is fixed or variable based on the contractual fee arrangement. Incentive and award fees are our primary variable fee contractual arrangement. Incentive and award fees on cost-plus type contracts are included as an element of total estimated contract revenues and recorded to sales when a basis exists for the reasonable prediction of performance in relation to established contractual targets and we are able to make reasonably dependable estimates for them. Sales and profits on time-and-material type contracts are recognized on the basis of direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of material and other direct non-labor costs. On a time-and-material type contract, the fixed hourly rates include amounts for the cost of direct labor, indirect contract costs and profit. Cost-plus type or time-and-material type contracts generally contain less estimation risks than fixed-price type contracts.

Sales on arrangements for (1) fixed-price type contracts that require us to perform services that are not related to production of tangible assets (Fixed-Price Service Contracts), and (2) certain commercial customers are recognized in accordance with accounting standards for revenue arrangements with commercial customers. Sales for our businesses whose customers are primarily commercial business enterprises are substantially generated from single element revenue arrangements. Sales are recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been performed, the selling price to the buyer is fixed or determinable and collectability is reasonably assured. Sales for Fixed-Price Service Contracts that do not contain measurable units of work performed are generally recognized on a straight-line basis over the contractual service period, unless evidence suggests that the revenue is earned, or obligations fulfilled, in a different manner. Sales for Fixed-Price Service Contracts that contain measurable units of work performed are generally recognized when the units of work are completed. Sales and profit on cost-plus and time-and-material type contracts within the scope of revenue recognition accounting standards for revenue arrangements with commercial customers are recognized in the same manner as those within the scope of contract accounting standards, except for incentive and award fees. Cost-based incentive fees are recognized when they are realizable in the amount that would be due under the contractual termination provisions as if the contract was terminated. Performance based incentive fees and award fees are recorded as sales when awarded by the customer.

For contracts with multiple deliverables, we apply the separation and allocation guidance under the accounting standard for revenue arrangements with multiple deliverables, unless all the deliverables are covered by contract accounting standards, in which case we apply the separation and allocation guidance under contract accounting standards. Revenue arrangements with multiple deliverables are evaluated to determine if the deliverables should be separated into more than one unit of accounting. We recognize revenue for each unit of accounting based on the revenue recognition policies discussed above.

Sales and profit in connection with contracts to provide services to the U.S. Government that contain collection risk because the contracts are incrementally funded and subject to the availability of funds appropriated, are deferred until the contract modification is obtained, indicating that adequate funds are available to the contract or task order.

Goodwill and Identifiable Intangible Assets. In accordance with the accounting standards for business combinations, we record the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition (commonly referred to as the purchase price allocation). Identifiable intangible assets are recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired business and sold, transferred, licensed, rented or exchanged. However, we do not recognize separate intangible assets for the assembled workforces of our business acquisitions.

Generally, the largest separately identifiable intangible asset from the businesses that we acquire is the value of their assembled workforces, which includes the human capital of the management, administrative, marketing and business development, scientific, engineering and technical employees of the acquired businesses. The success of our businesses, including their ability to retain existing business (revenue arrangements) and to successfully compete for and win new business (revenue arrangements), is primarily dependent on the management, marketing and business development, contracting, engineering and technical skills and knowledge of our employees, rather than on productive capital (plant and equipment, and technology and intellectual property). Additionally, for a significant portion of our businesses, our ability to attract and retain employees who have U.S. Government security clearances, particularly those with top-secret and above clearances, is critical to our success, and is often a prerequisite for retaining existing revenue arrangements and pursuing new ones. Generally, patents, trademarks and licenses are not material for our acquired businesses. Furthermore, our U.S. Government contracts (revenue arrangements) generally permit other companies to use our patents in most domestic work performed by such other companies for the U.S. Government. Therefore, because intangible assets for assembled workforces are part of goodwill, the substantial majority of the intangible assets for our acquired business acquisitions are recognized as goodwill. Additionally, the value assigned to goodwill for our business acquisitions also includes the value that we expect to realize from cost reduction measures that we implement for our acquired businesses. Goodwill equals the amount of the purchase price of the business acquired in excess of the sum of the fair value of identifiable acquired assets, both tangible and intangible, less the fair value of liabilities assumed. At December 31, 2013, we had goodwill of $7,796 million and identifiable intangible assets of $285 million.

The most significant identifiable intangible asset that is separately recognized in accordance with U.S. GAAP for our business acquisitions is customer contractual relationships. All of our customer relationships are established through written customer contracts (revenue arrangements). The fair value for customer contractual relationships is determined, as of the date of acquisition, based on estimates and judgments regarding expectations for the estimated future after-tax earnings and cash flows (including cash flows from working capital) arising from the follow-on sales on contract (revenue arrangement) renewals expected from customer contractual relationships over their estimated lives, including the probability of expected future contract renewals and sales, less a contributory asset charge, all of which is discounted to present value. All identifiable intangible assets are amortized over their estimated useful lives as the economic benefits are consumed. We review customer contractual relationships for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting standards for long-lived assets. If any such event or change in circumstances occurs, and, if our revised estimates of future after-tax cash flows are significantly lower than our estimates at the date we acquired the customer contractual relationships, we may be required to record an impairment charge to write-down these intangible assets to their realizable values. We also review and update our estimates of the duration of our customer contractual relationships, at least annually. If such estimates indicate that the duration of our customer contractual relationships has decreased compared to the estimates made as of the date we acquired these intangible assets, then we accelerate the amortization period for our customer contractual relationships over their remaining useful economic lives.

We review goodwill for impairment annually as of November 30 and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The accounting standards for goodwill allow for the assessment of qualitative factors, such as macroeconomic conditions, industry and market conditions and entity relevant events or circumstances to determine whether it is more likely or not that the fair value of a reporting unit is less than its carrying amount. L-3 did not utilize a qualitative assessment approach for the November 30, 2013 goodwill impairment test, as we chose instead to complete the quantitative two-step testing process for each reporting unit.

A reporting unit is an operating segment, as defined by the segment reporting accounting standards, or a component of an operating segment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and is reviewed by operating segment management. Two or more components of an operating segment may be aggregated and deemed a single reporting unit for goodwill impairment testing purposes if the components have similar economic characteristics.

L-3 had 13 reporting units at December 31, 2013 (and at November 30, 2013 when our annual goodwill impairment assessment was completed) compared to 15 reporting units at December 31, 2012. The reduction in the number of our reporting units was due to a change in L-3 s management and reporting structure that resulted in the consolidation of three reporting units into a single reporting unit. The reporting units that were consolidated had fair values in excess of their carrying values at the time of the realignments and the related goodwill for each was included in the current reporting unit.

L-3 s aggregate balance of goodwill increased by $20 million to $7,796 million at December 31, 2013 from $7,776 million at December 31, 2012 due to $44 million for business acquisitions, offset by reductions of $22 million for foreign currency translation adjustments and $2 million for a business disposition. The table below presents the number of reporting units and the associated goodwill at December 31, 2013 for each of our reportable segments.

Reportable Segment	**Number of Reporting Units**	**Aggregate Goodwill (in millions)**
C^3ISR	2	$ 797
Electronic Systems	9	4,875
P&LS	1	1,156
NSS	1	968
Total	13	$ 7,796

The first step in the process of testing goodwill for potential impairment is to compare the carrying value of the reporting unit to its fair value. If a potential impairment is identified, the second step is to measure the impairment loss by comparing the implied fair value of goodwill with the carrying value of goodwill of the reporting unit. Our methodology for determining the fair value of a reporting unit is estimated using a discounted cash flow (DCF) valuation approach, and is dependent on estimates for future sales, operating income, depreciation and amortization, income tax payments, working capital changes, and capital expenditures, as well as expected long-term growth rates for cash flows. All of these factors are affected by economic conditions related to the industries in which we operate (predominantly the U.S. defense industry), as well as, conditions in the U.S. capital markets.

The more significant assumptions used in our DCF valuations to determine the fair values of our reporting units in connection with the goodwill valuation assessment at November 30, 2013 were: (1) detailed three-year cash flow projections for each of our reporting units, which are based primarily on our estimates of future sales, operating income, and cash flows, (2) the expected long-term cash flow growth rates for each of our reporting units (commonly known as Terminal Growth Rates), which approximate the expected long-term nominal growth rate for the U.S. DoD budget, U.S. economy and the respective industries in which the reporting units operate, expected inflation rates, and specific circumstances for each reporting unit, including contracts or programs ending and expected new business, and (3) risk adjusted discount rates, which represent the weighted average cost of capital (WACC) for each reporting unit and include the estimated risk-free rate of return that is used to discount future cash flow projections to their present values. There were no changes to the underlying methods used in 2013 as compared to the prior year DCF valuations of our reporting units.

Each reporting unit WACC was comprised of: (1) an estimated required rate of return on equity, based on publicly traded companies with business and economic risk characteristics comparable to each of L-3 s reporting units (Market Participants), including a risk free rate of return of 3.82% on the 30 year U.S. Treasury Bond as of November 29, 2013 (2.81% as of November 30, 2012) and an equity risk premium of 5% (6% as of November 30, 2012) and (2) an after-tax rate of return on Market Participants debt, each weighted by the relative market value percentages of Market Participants equity and debt. The WACC assumptions for each reporting unit are based on a number of market inputs that are outside of our control and are updated annually to reflect changes to such market inputs as of the date of our annual goodwill impairment assessments, including changes to: (1) the estimated required rate of return on equity based on historical returns on common stock securities of Market Participants and the Standard & Poor s 500 Index over the prior two-year period, (2) the risk free rate of return based on the prevailing market yield on the 30 year U.S. Treasury Bond, (3) the rate of return of Market Participants publically traded debt securities, and (4) the relative market value percentages of Market Participants equity and debt.

The table below presents the weighted average risk adjusted discount rate assumptions in WACC, used in our DCF valuation for each of our reportable segments for our goodwill impairment assessments at November 30, 2013 and 2012.

	WACC	
Reportable Segments	**2013**	**2012**
C^3ISR(1)	7.42%	6.56%
Electronic Systems(2)	7.59%	6.77%
P&LS	7.42%	6.56%
NSS	8.09%	6.94%

(1) Both reporting units within the C^3ISR reportable segment used the risk adjusted discount rate in WACC as presented in the table above.

(2) The weighted average risk adjusted discount rate in WACC, for the Electronic Systems reportable segment is comprised of separate discount rates for each reporting unit within the segment that range from 7.42% to 8.03% for 2013 and 6.56% to 7.33% for 2012.

As presented in the table below, L-3 s historical three-year average annual cash flow growth rates for 2013, 2012 and 2011 for our reportable segments ranged from a negative 16% to a positive 64%. The annual cash flows generated by each of our reporting units varies from year to year, and, therefore, the annual cash flow growth rates do not result in linear trends, due to a number of factors, including, but not limited to: (1) variability of annual sales volume and sales growth rates, (2) increases and decreases in working capital, including customer advance payments and billings on multi-year contracts (revenue arrangements) with long-term performance periods (exceeding one year), (3) the timing of invoicing and cash collections between fiscal years from receivables due from customers on multi-year contracts (revenue arrangements), (4) the timing of increases and decreases of select inventories procured and produced in anticipation of future product sales, which frequently overlap the ending and beginning of fiscal years, (5) the timing of the receipt of award fee and incentive fee payments from customers on contracts (revenue arrangements), (6) variability in annual cash outlays for research and development costs, (7) changes in cash outlays for capital expenditures for property, plant and equipment, and (8) increases in annual sales and costs and expense volumes of a reporting unit resulting from business acquisitions. As a result of the factors discussed above and the varying sizes of our reporting units, the annual cash flow levels and growth rates at the reporting unit level tend to fluctuate significantly from year to year.

The 2013 cash flow amount and the cash flow growth rate for each of the last three years for each of our segments are presented in the following table.

Reportable Segment	Estimated 2013 Cash Flow[(1)] (in millions)		Estimated Average Annual Cash Flow Growth Rate[(1)] 2013	2012	2011	3 Yr. Average
C^3ISR[(2)]	$	276	10%	(3)%	130%	46%
Electronic Systems[(3)]	$	535	7%	(5)%	(9)%	(2)%
P&LS[(4)]	$	135	(10)%	(14)%	(24)%	(16)%
NSS[(5)]	$	83	(43)%	20%	214%	64%

(1) Reportable segment estimated cash flow excludes interest payments on debt and other corporate cash flows.

(2) The increase in 2013 cash flow for C^3ISR was due to small ISR aircraft sales to the DoD and a decrease in tax payments as a result of lower operating income and a lower effective tax rate. The decrease in 2012 cash flow was due to higher capital expenditures and an increase in tax payments as a result of a higher effective tax rate, partially offset by the timing of billings and cash receipts on fixed-price contracts. The increase in 2011 cash flow was due to working capital improvements, timing of billings and cash receipts on fixed-price contracts, and growth in operating income.

(3) The increase in 2013 cash flows for Electronic Systems was primarily due to a decrease in tax payments as a result of lower operating income and a lower effective tax rate, as well as working capital improvements at Training & Simulation. The decrease in 2012 cash flows was primarily due to lower operating income compared to 2011 for Space & Propulsion and Power & Control Systems. The decrease in 2011 cash flows was primarily due to lower operating income compared to 2010 for Warrior Systems, Training & Simulation, Space & Propulsion and Microwave and liquidation of advance payments at Microwave, partially offset by lower working capital requirements at Warrior Systems.

(4) The decrease in 2013 cash flow for P&LS was primarily due to lower operating income, higher capital expenditures, and lower advanced payments, partially offset by decrease in contracts in process due to delivery of Joint Cargo Aircraft. The decrease in 2012 cash flow was primarily due to higher working capital requirements, primarily for inventory on new contracts that began in 2012 and an increase in estimated tax payments, partially offset by higher operating income and an increase in advanced payments. The decrease in 2011 cash flow was primarily due to higher working capital requirements, primarily for inventory on new contracts that began in 2011 and the timing of billings, partially offset by an increase in advanced payments.

(5) The decrease in 2013 cash flow for NSS was primarily due to lower sales, as well as 2012 cash inflows that did not recur, including collections of billed receivables and customer advance payments. The increase in 2012 cash

flow was primarily due to the timing of billings and cash receipt and an increase in advance payments. The increase in 2011 cash flow was primarily due to working capital reductions due to lower sales volume and a decrease in tax payments.

We consistently consider several factors to determine expected future annual cash flows for our reporting units, including, historical multi-year average cash flow trends by reporting unit and the expected future cash flow growth rates for each of our reporting units primarily based on our estimates of future sales, operating income, and working capital changes. Furthermore, the substantial majority of our reporting units are primarily dependent upon the DoD budget and spending. Sales from DoD customers generate a significant portion of our annual sales and have historically represented approximately 70% or more of our total sales. Accordingly, to determine expected future annual cash flows for our reporting units we also consider: (1) the DoD budget and spending priorities, (2) expansion into new markets, (3) changing conditions in existing markets for our products, systems, and services, (4) possible termination of certain government contracts, (5) expected success in new business competitions and re-competitions on existing business, and (6) anticipated operating margins and working capital requirements, which vary significantly depending on the stage of completion (early, mature, ending) of contracts (revenue arrangements). We closely monitor changes in these factors and their impact on the expected cash flow of our reporting units. In addition to these factors that were relevant and specific to each of our reporting units, our goodwill impairment assessments as of November 30, 2013 assumed a declining DoD base budget through FY 2014, a flat base budget in both FY 2015 and FY 2016, and 2% nominal growth in the base budget beginning with FY 2017, consistent with our discussion of the business environment.

Additionally, our actual cash flows may be higher than our projections and the DCF valuation does not reflect actions that we may take to increase the profitability and cash flows of our reporting units, including our four reporting units with fair value cushions of at least 20% in the second table below. Actions we may take include consolidating and streamlining select business operations, creating future synergies with other L-3 businesses, or pursuing incremental targeted growth opportunities. Additionally, the DCF valuations do not assume future business acquisitions or divestitures.

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The table below presents the estimated: (1) 2014 cash flow amount, (2) average annual cash flow growth rates for 2014 2016, and (3) weighted average annual cash flow growth rates after 2016 for each of our reportable segments.

Reportable Segment	Estimated 2014 Cash Flow	Estimated Average Annual Cash Flow Growth Rates		
	(in millions)	3 Yr. Average 2014 2016	2017-2018	After 2018 Terminal Growth Rate
C^{3}ISR[(1)]	$ 229[(1)]	(6)%	2%	2%
Electronic Systems[(2)]	$ 341[(2)]	2%	2%	2%
P&LS[(3)]	$ 142[(3)]	6%	2%	2%
NSS[(4)]	$ 71[(4)]	(5)%	2%	2%

(1) C^{3}ISR projected cash flow is expected decrease by $47 million from $276 million in 2013 to $229 million in 2014. The decrease is mainly due to small ISR aircraft sales to the DoD in 2013 that will not recur in 2014.

(2) Electronic Systems projected cash flow is expected to decrease by $194 million from $535 million in 2013 to $341 million in 2014. The decrease is mainly due to lower sales and operating income at Microwave Products, lower sales and operating income and liquidations of advanced payments received in 2013 at Marine & Power Systems, and higher capital expenditures and working capital requirements at Simulation & Training.

(3) P&LS projected cash flow is expected to increase by $7 million from $135 million in 2013 to $142 million in 2014. The increase is primarily due to higher expected operating income, partially offset by higher working capital requirements.

(4) NSS projected cash flow is expected to decrease by $12 million from $83 million in 2013 to $71 million in 2014. The expected decrease is primarily due to 2013 working capital improvements, primarily due to timing of payments to vendors, not expected to recur in 2014. Projected 2014 sales and operating income are also expected to decline as compared to 2013, although at a slower rate, which will also contribute to the decline in 2014 cash flow.

A decline in the estimated fair value of a reporting unit could result in a goodwill impairment, and a related non-cash impairment charge against earnings, if the estimated fair value for the reporting unit is less than the carrying value of the net assets of the reporting unit, including its goodwill. A large decline in estimated fair value of a reporting unit could result in an adverse effect on our financial condition and results of operations.

As discussed above, the more significant assumptions used in our DCF valuations for each of our reporting units were detailed three-year undiscounted cash flow projections, risk adjusted discount rates, or WACC, used to discount the cash flow projections to their present value and expected Terminal Growth Rates. The current year (2014-2016) consolidated three-year undiscounted cash flow projections remained substantially the same compared to the prior year (2013-2015), although the changes by each reporting unit ranged from a decline of 78% to an increase of 47%. The risk adjusted discount rate, or WACC, increased by an average of 80 basis points compared to the prior year valuations primarily due to an increase of approximately 100 basis points in the risk free rate of return and higher equity to debt ratio as a result of higher equity values among Market Participants within each peer group. The expected Terminal Growth Rates utilized in the current year valuations were higher than those utilized in the prior year valuations by an average of approximately 100 basis points. The expected Terminal Growth Rates utilized in the prior year valuations were approximately 1% compared to approximately 2% utilized in the current year valuations. The increase in the terminal growth rates assumption was based on several factors, including but not limited to: (1) an increase in the expected inflation rate and economic growth rate, (2) an increase in interest rate levels during 2013 from 2012, consistent with the increase in the risk free rate, (3) an improved outlook for DoD budgets with smaller than BCA required sequestration cuts legislated by Congress for FY 2013, FY 2014 and FY 2015, and a return to a nominal annual growth rate of 2% by FY 2017, and (4) multi-year and Indefinite Delivery/Indefinite Quantity contract wins during 2013 that are expected to generate sales growth at select reporting units.

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We evaluated the sensitivity of the DCF fair value estimates for each reporting unit, which were used for our goodwill impairment assessment, by separately assessing the impact on the estimated fair value of each reporting unit by: (1) increasing the risk adjusted discount rate (WACC) by 50 basis points, or (2) reducing the Terminal Growth Rate by 50 basis points, compared to those used in our estimated fair value calculations, while holding all other assumptions unchanged. All of our reporting units would have had a fair value in excess of their carrying value, except for the NSS reporting unit under both scenarios. In each of the two scenarios, the fair value of the NSS reporting unit would have been less than its carrying value and step two of the impairment assessment would have been required. In addition, we applied hypothetical decreases to the estimated fair values of each of our reporting units. We determined that a decrease in fair value of at least 20% would be required before any reporting unit, with the exception of four reporting units presented in the table below, would have a carrying value in excess of its fair value. The table below presents the: (1) risk adjusted discount rates, (2) annual cash flow and three-year average growth rate, (3) 2013 cash flow, (4) goodwill balance, and (5) excess fair value percentage and dollar amount, for each of these four reporting units.

Reporting Unit ($ in millions)	**Risk Adjusted Discount Rates**	**Estimated Annual Cash Flow Growth Rate[1] 2013**	**2012**	**2011**	**3 Year Average**	**Estimated 2013 Cash Flows[1]**	**Goodwill Balance[2]**	**Excess Fair Value[3]**	
NSS[4]	8.09%	(43)%	20%	214%	63%	$ 83	$ 968	5%	$ 55
Space & Propulsion Systems[5]	7.42%	(268)%	(111)%	(46)%	(142)%	$ 5	$ 240	9%	$ 32
Warrior Systems[6]	7.49%	(34)%	84%	(40)%	6%	$ 28	$ 605	16%	$ 177
Marine & Power Systems[7]	7.42%	85%	(64)%	(7)%	5%	$ 79	$ 1,048	20%	$ 244

(1) Reporting unit cash flow excludes interest payments on debt and other corporate cash flows.

(2) The goodwill balance is as of November 30, 2013, our goodwill impairment testing date.

(3) The excess fair value represents the percentage and dollar amount by which the fair value of a reporting unit must decline before a potential impairment is identified and would require the second step of the goodwill impairment assessment to be performed.

(4) Our DCF valuation for this reporting unit assumed lower projected cash flow of approximately 15% in 2014 compared to 2013 due to lower expected sales and operating income, as well as the timing of payments to vendors in 2013. In addition, our DCF valuation assumed that projected cash flow will remain approximately 15% below 2013 levels in 2015 and 2016 due to continued constraints on DoD budgets, particularly for services. Projected cash flows are expected grow 2% starting in 2017.

(5) Our DCF valuation for this reporting unit assumed cash used of $3 million in 2014 compared to cash flows of $5 million in 2013 due to the liquidation of a customer advance in 2014 on a large international contract that

was received in 2013. In 2015, cash flows are assumed to increase to $18 million due to increased sales and operating income, as well as lower working capital requirements, primarily for inventory levels. In 2016, cash flows decrease $23 million to cash used of $5 million due to the liquidation of the customer advance on the large international contract received in 2013. Projected cash flows are expected to grow 2% annually beginning in 2017.

(6) Our DCF valuation for this reporting unit assumed higher projected cash flow of approximately 81% in 2014 compared to 2013 due higher sales and operating income and lower working capital requirements, primarily for inventory. In addition, our DCF valuation assumed that projected cash flow in 2015 and 2016 will grow 129% and 164% above 2013 levels (growth of 51% and 74% above 2012 levels), primarily due to increased international sales at higher margins and associated customer advance payments, and higher margins on domestic programs due to improved performance. Projected cash flows are expected to grow 2% starting in 2017.

(7) Our DCF valuation for this reporting unit assumed that cash flows would decrease approximately 61% in 2014 compared to 2013, before increasing in 2015 and 2016. Cash flow levels for 2014, 2015 and 2016 are projected to be at 39%, 81% and 97% of the 2013 cash flow level. Cash flows decline in 2014 primarily due to the liquidation of the customer advances received in 2013, as well as lower sales and operating income. The increase in cash flows in 2015 and 2016, as compared to 2014, is due to increasing sales and operating income as well as the timing of customer advances on new and follow-on contracts with international customers. Projected cash flows are expected to grow 2% annually beginning in 2017.

As discussed previously, in addition to the annual goodwill impairment assessment, we review goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of a reporting unit s goodwill may not be recoverable. As such, listed below are certain circumstances, depending on their outcomes, that may require us to review goodwill for impairment for one or more of the four reporting units in the table above prior to the next annual assessment (November 30, 2014):

Lower than expected annual sales from our contracts with the DoD, arising from unanticipated changes or reductions to future DoD budgets;

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the ability of the reporting units to achieve: (1) 2014 projected sales, operating income and cash flow and (2) the win-loss experience on 2014 contract re-competitions and new business pursuits;

the ability of NSS to successfully win re-competes and new business, particularly its largest contract in terms of annual sales, which is scheduled for re-competition in the middle of 2014; and

the ability of Space & Propulsion Systems to achieve projected award fees over the five year life of the Missile Defense Agency Medium-Range Ballistic Missile target vehicle contract.

Pension Plan and Postretirement Benefit Plan Obligations. The obligations for our pension plans and postretirement benefit plans and the related annual costs of employee benefits are calculated based on several long-term assumptions, including discount rates and expected mortality for employee benefit liabilities, and rates of return on plan assets, and expected annual rates for salary increases for employee participants in the case of pension plans, and expected annual increases in the costs of medical and other health care benefits in the case of postretirement benefit obligations. These long-term assumptions are subject to revision based on changes in interest rates, financial market conditions, expected versus actual returns on plan assets, expected participant mortality and other actuarial assumptions, including future rates of salary increases, benefit formulas and levels, and rates of increase in the costs of benefits. Changes in the assumptions, if significant, could materially affect the amount of annual net periodic benefit costs recognized in our results of operations from one year to the next, the liabilities for the pension plans and postretirement benefit plans, and our annual cash requirements to fund these plans. Our pension expense for 2014 is expected to decrease by $101 million to $80 million from $181 million in 2013. Our discount rate assumption increased from a weighted average rate of 4.15% in 2012 to 5.03% in 2013. The expected decrease in our 2014 pension expense is primarily due to the increase in the weighted average discount rate and the increase in our actual asset return. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Pension Plans for a further discussion of our estimated 2014 pension expense.

Discount rates are used to determine the present value of our pension obligations and also affect the amount of pension expense in any given period. The discount rate assumptions used to determine our pension and postretirement benefit obligations at December 31, 2013 and 2012 were based on a hypothetical AA yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to have a rating of AA or better by Moody s Investors Service, Inc. and/or Standard & Poor s. The resulting discount rate reflects the matching of plan liability cash flows to the yield curve. For a sensitivity analysis projecting the impact of a change in the discount rate on our projected benefit obligation and pension expense, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Pension Plans.

Valuation of Deferred Income Tax Assets and Liabilities. At December 31, 2013, we had deferred tax assets of $527 million, deferred tax liabilities of $1,018 million and a valuation allowance of $22 million. The deferred tax assets include $24 million for loss carryforwards and $7 million for tax credit carryforwards which are subject to various limitations and will expire if unused within their respective carryforward periods. Deferred income taxes are determined separately for each of our tax-paying entities in each tax jurisdiction. The future realization of our deferred income tax assets ultimately depends on our ability to generate sufficient taxable income of the appropriate character (for example, ordinary income or capital gains) within the carryback and carryforward periods available under the tax law and, to a lesser extent, our ability to execute successful tax planning strategies. Based on our estimates of the amounts and timing of future taxable income and tax planning strategies, we believe that we will be able to realize our deferred tax assets, except for capital losses and certain U.S. Federal, foreign and state net operating losses. A change in the ability of our operations to continue to generate future taxable income, or our ability to implement desired tax planning strategies, could affect our ability to realize the future tax deductions underlying our deferred tax assets, and require us to provide a valuation allowance against our deferred tax assets. The recognition of a valuation allowance would result in a reduction to net income and, if significant, could have a material impact on our effective tax rate, results of operations and financial position in any given period.

Liabilities for Pending and Threatened Litigation. We are subject to litigation, government investigations, proceedings, claims or assessments and various contingent liabilities incidental to our business or assumed in connection with certain business acquisitions. In accordance with the accounting standards for contingencies, we accrue a charge for a loss contingency when we believe it is both probable that a liability has been incurred, and the amount of the loss can be reasonably estimated. If the loss is within a range of specified amounts, the most likely amount is accrued, and we accrue the minimum amount in the range if no amount within the range represents a better estimate. Generally, we record the loss contingency at the amount we expect to pay to resolve the contingency and the amount is generally not discounted to the present value. Amounts recoverable under insurance contracts are recorded as assets when recovery is deemed probable. Contingencies that might result in a gain are not recognized until realizable. Changes to the amount of the estimated loss, or resolution of one or more contingencies could have a material impact on our results of operations, financial position and cash flows. See Note 19 to our audited consolidated financial statements for further discussion of our litigation matters.

Valuation of Long-Lived Assets. In addition to goodwill and identifiable intangible assets recognized in connection with our business acquisitions, our long-lived assets also include property, plant and equipment, capitalized software development costs for software to be sold, leased or otherwise marketed, and certain long-term investments. As of December 31, 2013, the consolidated carrying values of our property, plant and equipment were $1,039 million, certain long-term investments were $12 million, and capitalized software development costs were $52 million. As of December 31, 2013, the carrying value of our property, plant and equipment represented 7% of total assets and the carrying value of our capitalized software development costs and certain long-term investments each represented less than 1% of total assets. We review the valuation of our long-lived assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds its fair value or net realizable value expected to result from the asset s use and eventual disposition. We use a variety of factors to assess valuation, depending upon the asset. Long-lived assets are evaluated based upon the expected period the asset will be utilized, and other factors depending on the asset, including estimated future sales, profits and related cash flows, estimated product acceptance and product life cycles, changes in technology and customer demand, and the performance of invested companies and joint ventures. Changes in estimates and judgments on any of these factors could have a material impact on our results of operations and financial position.

Results of Operations

The following information should be read in conjunction with our audited consolidated financial statements. The following information has been adjusted to reflect the spin-off of Engility and related classification of results of operations and cash flows as discontinued operations. Also, our results of operations for the periods presented are affected by our business acquisitions. See Note 4 to our audited consolidated financial statements for a discussion of our business acquisitions.

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Consolidated Results of Operations

The table below provides selected financial data, excluding discontinued operations, for the years ended December 31, 2013, 2012 and 2011.

(in millions, except per share data)	Year Ended December 31, 2013	Year Ended December 31, 2012	Increase/ (decrease)	Year Ended December 31, 2012	Year Ended December 31, 2011[(1)]	Increase/ (decrease)
Net sales	$ 12,629	$ 13,146	(3.9)%	$ 13,146	$ 13,158	(0.1)%
Operating income	$ 1,258	$ 1,351	(6.9)%	$ 1,351	$ 1,399	(3.4)%
Goodwill impairment charge					43	nm
Segment operating income	$ 1,258	$ 1,351	(6.9)%	$ 1,351	$ 1,442	(6.3)%
Operating margin	10.0%	10.3%	(30) bpts	10.3%	10.6%	(30) bpts
Goodwill impairment charge	%	%		%	0.4%	(40) bpts
Segment operating margin	10.0%	10.3%	(30) bpts	10.3%	11.0%	(70) bpts
Interest expense	$ 177	$ 184	(3.8)%	$ 184	$ 204	(9.8)%
Interest and other income, net	$ 15	$ 8	nm	$ 8	$	nm
Debt retirement charge	$	$ 13	nm	$ 13	$ 35	nm
Effective income tax rate	28.2%	32.2%	(400) bpts	32.2%	25.5%	670 bpts
Net income from continuing operations attributable to L-3	$ 778	$ 782	(0.5)%	$ 782	$ 855	(8.5)%
Q4 2011 Items					(28)	nm
Net income from continuing operations attributable to L-3, excluding Q4 2011 Items	$ 778	$ 782	(0.5)%	$ 782	$ 827	(5.4)%
Diluted earnings per share from continuing operations	$ 8.54	$ 8.01	6.6%	$ 8.01	$ 8.08	(0.9)%
Q4 2011 Items					(0.26)	nm
Diluted earnings per share from continuing operations, excluding Q4 2011 Items	$ 8.54	$ 8.01	6.6%	$ 8.01	$ 7.82	2.4%
Diluted weighted average common shares outstanding	91.1	97.6	(6.7)%	97.6	105.6	(7.6)%

(1) The year ended December 31, 2011 includes: (1) a tax benefit of $78 million, or $0.74 per diluted share, for a net reversal of amounts previously accrued related to tax years for which the statutes of limitations has expired, (2) a non-cash goodwill impairment charge of $43 million ($42 million after income taxes), or $0.40 per

diluted share due to a decline in the estimated fair value of our Marine Services business, and (3) $14 million ($8 million after income taxes), or $0.08 per diluted share for our share of an impairment charge for long-lived assets at an equity method investment. These items are collectively referred to as the Q4 2011 Items.

The company believes that the Q4 2011 Items affect the comparability of the results of operations of the 2012 full year to the results of operations for the 2011 full year. The company also believes that disclosing net income and diluted earnings per share excluding the Q4 2011 Items will allow financial statement users to more easily compare the 2012 full year results to the 2011 full year results. Further, the goodwill impairment charge was included in consolidated operating income, but excluded from segment operating income because the charge was excluded by management for purposes of assessing segment operating performance.

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2013 Compared with 2012

Net Sales: For the year ended December 31, 2013, consolidated net sales of $12.6 billion decreased $517 million, or 4%, compared to the year ended December 31, 2012 as lower sales to the DoD caused by declining budgets, sequestration cuts and the continuing U.S. military drawdown from Afghanistan impacted each segment. Acquired businesses, which are all included in the Electronic Systems segment, added $81 million to net sales in the year ended December 31, 2013. Net sales to international government and commercial customers increased 11%, or $341 million, to $3,461 million in the year ended December 31, 2013, including $74 million from acquired businesses, compared to $3,120 million in the year ended December 31, 2012. Net sales to international and commercial customers, as a percentage of consolidated net sales, increased to 27% for the year ended December 31, 2013 compared to 24% for the year ended December 31, 2012.

Sales from products decreased by $343 million to $7,192 million for the year ended December 31, 2013, compared to $7,535 million for the year ended December 31, 2012. Product sales represented 57% of consolidated net sales for both years ended December 31, 2013 and 2012. Sales of products declined for: (1) networked communication systems primarily due to lower U.S. Army demand for remote video terminals due to the U.S. military drawdown from Afghanistan, and lower volume due to contracts nearing completion and declining demand caused by sequestration and other DoD budget reductions, (2) Microwave Products due to reduced deliveries of power devices for commercial satellite communication systems and mobile and ground-based satellite communication systems for the U.S. military as programs ended, (3) Precision Engagement primarily due to programs for ordnance products ending, and (4) Sensor Systems due to lower volume primarily for airborne electro-optic infrared (EO/IR) turrets for the U.S. Army Persistent Threat Detection System (PTDS) contract due to the U.S. military drawdown from Afghanistan. The decrease in product sales was also due to sales volume declines for Security & Detection Systems and Space & Propulsion Systems. These decreases were partially offset by sales from the recently acquired Link U.K. business and organic sales growth for: (1) Platform Solutions due to increased volume for modifications for the U.S. Air Force (USAF) EC-130 aircraft and (2) Warrior Systems due to increased demand for holographic weapon sights for the commercial sporting and recreation markets.

Sales from services, decreased by $174 million to $5,437 million for the year ended December 31, 2013, compared to $5,611 million for the year ended December 31, 2012. Service sales represented 43% of consolidated net sales for both years ended December 31, 2013 and 2012. Sales from services decreased due to: (1) lower volume for small ISR aircraft systems due to the U.S. military drawdown from Afghanistan, (2) lower volume for Logistics Solutions, primarily due to the competitive loss of a task order for U.S. Army contract field team support services in Southwest Asia and reduced fleet management services due to the loss of the Joint Primary Aircraft Training Systems (JPATS) contract for the USAF, and (3) lower demand for technical support for a U.S. Government agency and information technology (IT) support services for the U.S. Special Operations Command (USSOCOM). See the reportable segment results for additional discussion of our segment sales trends.

Operating income and operating margin: Operating income for the year ended December 31, 2013 of $1,258 million decreased $93 million, or 7%, as compared to the year ended December 31, 2012. Operating margin decreased by 30 basis points to 10.0% for the year ended December 31, 2013, compared to 10.3% for the year ended December 31, 2012. The decrease in operating margin is primarily due to higher design and production costs for the C^3ISR segment. Acquired businesses reduced operating margin by 10 basis points and higher pension expense of $11 million ($7 million after income taxes, or $0.08 per diluted share) reduced operating margin by 10 basis points. Additionally, the years ended December 31, 2013 and 2012 included severance charges that reduced operating income. In 2013, the severance charges were $29 million ($18 million after income taxes, or $0.20 per diluted share) compared to $23 million ($14 million after income taxes, or $0.14 per diluted share) for 2012. See the reportable segment results for additional discussion of segment operating margin trends.

Interest expense: Interest expense for the year ended December 31, 2013 declined by $7 million compared to the year ended December, 31, 2012, due to lower outstanding debt, which reduced interest expense by $21 million, partially offset by $14 million of interest expense that was allocated to discontinued operations in 2012.

Interest and other income: Interest and other income, net, for the year ended December 31, 2013 increased by $7 million primarily due to a $5 million non-cash impairment charge recorded in 2012 for the dissolution of an unconsolidated joint venture.

Effective income tax rate: The effective tax rate for the year ended December 31, 2013 decreased to 28.2% from 32.2% for the same period last year. The decrease is primarily due to tax benefits in the year ended December 31, 2013 of: (1) $33 million ($0.36 per diluted share) for the U.S. Federal research and experimentation tax credit (R&E Credit) retroactively reinstated in 2013, of which $17 million ($0.19 per diluted share) relates to 2012, and (2) $8 million related to deferred tax benefits.

Net income from continuing operations attributable to L-3 and diluted earnings per share from continuing operations: Net income from continuing operations attributable to L-3 in the year ended December 31, 2013 decreased 1% to $778 million compared to the year ended December 31, 2012, and diluted earnings per share (EPS) from continuing operations increased 7% to $8.54 from $8.01.

Diluted weighted average common shares outstanding: Diluted weighted average common shares outstanding for the year ended December 31, 2013 declined by 7% compared to the year ended December 31, 2012 due to repurchases of L-3 common stock in connection with our share repurchase programs authorized by our Board of Directors, partially offset by additional shares issued in connection with various employee stock-based compensation programs and contributions to employee savings plans made in common stock.

2012 Compared with 2011

Net Sales: For the year ended December 31, 2012, consolidated net sales of $13,146 million decreased by $12 million, or 0.1%, compared to the year ended December 31, 2011. Higher sales from the C^3ISR, Electronic Systems and P&LS segments were offset by lower sales from the NSS segment. Acquired businesses, which are all included in the Electronic Systems segment, added $196 million to net sales in the year ended December 31, 2012. Net sales to international government and commercial customers grew 15% to $3,120 million for the year ended December 31, 2012 compared to $2,719 million for the year ended December 31, 2011.

Sales from products decreased by $17 million to $7,535 million for the year ended December 31, 2012 compared to $7,552 million for the year ended December 31, 2011, representing 57% of consolidated net sales for both years ended December 31, 2012 and 2011. The decrease in product sales was due to sales volume declines primarily for Power & Control Systems, Warrior Systems, network communication systems, and Precision Engagement. These decreases were partially offset by sales from the L-3 KEO and Link U.K. business acquisitions and organic sales growth primarily for: (1) Platform Solutions for new contracts, (2) airborne ISR systems and (3) Microwave Products.

Sales from services increased by $5 million to $5,611 million for the year ended December 31, 2012 compared to $5,606 million for the year ended December 31, 2011, representing 43% of consolidated net sales for both years ended December 31, 2012 and 2011. Sales from services increased primarily due to sales growth primarily from airborne ISR logistics support and fleet management services, networked communications systems and Sensor Systems. These increases were partially offset by lower sales primarily due to: (1) less demand from the USSOCOM IT support services due to our previous single-award contract converting to several multiple-award contracts, (2) a decline in IT support services for select non-DoD U.S. Government agencies and (3) lower demand for intelligence support services due to the drawdown of U.S. military forces from Iraq. See the reportable segment results for additional discussion of our segment sales trends.

Segment operating income and operating margin: Segment operating income for the year ended December 31, 2012 decreased by $91 million, or 6%, compared to the year ended December 31, 2011. Segment operating margin decreased by 70 basis points to 10.3% for the year ended December 31, 2012 compared to 11.0% for the year ended December 31, 2011. Higher pension expense of $38 million ($24 million after income tax, or $0.25

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per diluted share) reduced segment operating margin by 30 basis points. The remaining decrease in segment operating margin was primarily due to sales mix changes in the Electronic Systems and C^3ISR segments and $9 million of legal fees and inventory write-downs related to security and safety equipment in the NSS segment. See the reportable segment results for additional discussion of segment operating margin trends.

Interest expense: Interest expense declined by $20 million due to lower interest rates on outstanding fixed rate debt, partially offset by higher interest expense allocated to discontinued operations in 2011.

Interest and other income: Interest and other income, net, increased by $8 million for the year ended December 31, 2012, compared to the year ended December 31, 2011 primarily due to a 2011 fourth quarter impairment charge of $14 million for long-lived assets at an equity method investment.

Debt retirement charge: During 2012, we redeemed $500 million of our 6 3/8% 2015 Notes and recorded related debt retirement charges of $13 million. During 2011, we redeemed $650 million of our 5 7/8% 2015 Notes and $500 million of our 6 3/8% 2015 Notes and recorded related debt retirement charges of $35 million.

Effective income tax rate: The effective tax rate for the year ended December 31, 2012 increased to 32.2% from 25.5% for the year ended December 31, 2011. Excluding the Q4 2011 Items, the effective tax rate for the year ended December 31, 2011 would have been 31.2%. The increase in the effective tax rate was primarily due to the expiration of the R&E Credit on December 31, 2011. The American Taxpayer Relief Act of 2012, which was enacted on January 2, 2013, retroactively reinstated and extended the R&E Credit for all of 2012 and 2013. As a result, the 2012 impact was recorded in the 2013 first quarter.

Net income from continuing operations attributable to L-3 and diluted earnings per share from continuing operations: Net income from continuing operations attributable to L-3 in the year ended December 31, 2012 decreased 9% to $782 million compared to the year ended December 31, 2011, and diluted EPS from continuing operations decreased to $8.01 from $8.08. Excluding the Q4 2011 Items, net income from continuing operations attributable to L-3 decreased 5% and diluted EPS increased 2%.

Diluted weighted average common shares outstanding: Diluted weighted average common shares outstanding for the year ended December 31, 2012 declined by 8% compared to the year ended December 31, 2011 due to repurchases of L-3 common stock in connection with our share repurchase programs authorized by our Board of Directors, partially offset by additional shares issued in connection with various employee stock-based compensation programs and contributions to employee savings plans made in common stock.

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Reportable Segment Results of Operations. The table below presents selected data by reportable segment reconciled to consolidated totals. See Note 22 to our audited consolidated financial statements for additional reportable segment data.

	Year Ended December 31,		
	2013	2012	2011
	(dollars in millions)		
Net sales:[1]			
C^3ISR	$ 3,367	$ 3,601	$ 3,480
Electronic Systems	5,524	5,677	5,628
P&LS	2,443	2,483	2,440
NSS	1,295	1,385	1,610
Consolidated net sales	$ 12,629	$ 13,146	$ 13,158
Operating income:			
C^3ISR	$ 301	$ 364	$ 394
Electronic Systems	645	672	719
P&LS	227	236	228
NSS	85	79	101
Total segment operating income	$ 1,258	$ 1,351	$ 1,442
Goodwill impairment charge			(43)
Consolidated operating income	1,258	1,351	1,399
Operating margin:			
C^3ISR	8.9%	10.1%	11.3%
Electronic Systems	11.7%	11.8%	12.8%
P&LS	9.3%	9.5%	9.4%
NSS	6.6%	5.7%	6.2%
Total segment operating margin	10.0%	10.3%	11.0%
Goodwill impairment charge	%	%	(0.4)%
Consolidated operating margin	10.0%	10.3%	10.6%

(1) Net sales are after intercompany eliminations.

C^3ISR

	Year Ended December 31, 2013	2012	Decrease	Year Ended December 31, 2012	2011	Increase/ (decrease)
			(dollars in millions)			
Net sales	$ 3,367	$ 3,601	(6.5)%	$ 3,601	$ 3,480	3.5%
Operating income	301	364	(17.3)%	364	394	(7.6)%
Operating margin	8.9%	10.1%	(120) bpts	10.1%	11.3%	(120) bpts

2013 Compared with 2012

C^{3}ISR net sales for the year ended December 31, 2013 decreased by $234 million, or 7%, compared to the year ended December 31, 2012. Sales decreased $208 million for networked communication systems and $26 million for ISR Systems. The decrease in sales for networked communication systems was due to: (1) lower U.S. Army demand for remote video terminals due to the U.S. military drawdown from Afghanistan, (2) lower volume primarily for airborne and ground-based systems and vehicle mounted satellite communication ground stations due to contracts nearing completion and declining demand caused by sequestration and other DoD budget reductions, and (3) lower productivity due to the implementation of new enterprise resource planning (ERP) systems during the 2013 third quarter, which caused sales volume to decline by $45 million. The decrease

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in sales for ISR Systems was primarily due to $154 million of lower volume for small ISR aircraft systems due to the U.S. military drawdown from Afghanistan. This decrease was partially offset by $78 million of higher volume on ISR platforms for foreign military customers and $50 million of small ISR aircraft sales to the DoD.

C^3ISR operating income for the year ended December 31, 2013 of $301 million, which included severance charges of $8 million, decreased by $63 million, or 17%, compared to the year ended December 31, 2012. Operating margin decreased by 120 basis points to 8.9%. Operating margin declined by: (1) 150 basis points primarily due to higher design and production costs for networked communication systems, (2) 60 basis points due to higher pension expense and severance charges, and (3) 30 basis points for higher costs and lower productivity due to the implementation of new ERP systems at networked communication systems. These decreases were partially offset by 70 basis points primarily due to improved productivity on certain contracts and 50 basis points due to sales mix changes primarily for ISR Systems.

2012 Compared with 2011

C^3ISR net sales for the year ended December 31, 2012 increased by $121 million, or 4%, compared to the year ended December 31, 2011. The increase in sales was primarily due to higher demand for airborne ISR systems for U.S. government and international military customers.

C^3ISR operating income for the year ended December 31, 2012 decreased by $30 million, or 8%, compared to the year ended December 31, 2011. Operating margin decreased by 120 basis points to 10.1%. Higher pension expense of $24 million reduced operating margin by 70 basis points and sales mix changes reduced operating margin by 50 basis points.

Electronic Systems

	Year Ended December 31, 2013	Year Ended December 31, 2012	Decrease	Year Ended December 31, 2012	Year Ended December 31, 2011	Increase/ (decrease)
	(dollars in millions)					
Net sales	$ 5,524	$ 5,677	(2.7)%	$ 5,677	$ 5,628	0.9%
Operating income	645	672	(4.0)%	672	719	(6.5)%
Operating margin	11.7%	11.8%	(10) bpts	11.8%	12.8%	(100) bpts

2013 Compared with 2012

Electronic Systems net sales for the year ended December 31, 2013 decreased by $153 million, or 3%, compared to the year ended December 31, 2012. Sales declined: (1) $140 million for Microwave Products due to reduced deliveries of power devices for commercial satellite communication systems and mobile and ground-based satellite communication systems for the U.S. military as programs ended, (2) $40 million for Space & Propulsion Systems due to certain funding constraints for the Missile Defense Agency s air-launched target programs, (3) $39 million for Sensor Systems due to lower volume primarily for airborne EO/IR turrets for the U.S. Army PTDS contract due to the U.S. military drawdown from Afghanistan, (4) $35 million for Security & Detection Systems due to lower orders from the Transportation Security Administration caused by U.S. Government sequestration cuts and the completion of certain international contracts, and (5) $31 million for Precision Engagement primarily due to programs for ordnance products ending. These decreases were partially offset by a sales increase of $35 million primarily for Warrior

Systems due to increased demand for holographic weapon sights for the commercial sporting and recreation markets and $16 million for Simulation & Training due to upgrades for F/A-18 flight simulator trainers and volume on new commercial aircraft simulation contracts. Sales also increased by $81 million primarily due to the Link U.K. and L-3 KEO acquisitions.

Electronic Systems operating income for the year ended December 31, 2013 of $645 million, which included severance charges of $19 million, decreased by $27 million, or 4%, compared to the year ended December 31, 2012. Operating margin decreased by 10 basis points to 11.7%. Sales declines and mix changes were mostly offset by improved contract performance across several business areas, including Space & Propulsion Systems and Microwave Products. Sales from acquired businesses reduced operating margin by 20 basis points.

2012 Compared with 2011

Electronic Systems net sales for the year ended December 31, 2012 increased by $49 million, or 1%, compared to the year ended December 31, 2011. Sales increased: (1) $149 million for Sensor Systems primarily for the L-3 KEO acquisition, (2) $85 million for Microwave Products primarily due to increased deliveries of mobile and ground-based satellite communication systems for the U.S. military and power devices for commercial satellite communication systems, (3) $72 million for Simulation & Training of which $49 million was from the Link U.K. acquisition and $23 million was primarily due to increased deliveries of U.S. Army rotary wing training systems for the Flight School XXI program, and (4) $30 million for Marine Services primarily due to the landing craft air cushion vehicle service life extension program. These increases were partially offset by sales declines of: (1) $157 million for Power & Control Systems due to reduced shipments of tactical quiet generators for the U.S. Army, which reduced sales by $92 million, and by $65 million due to negative foreign currency translation of $41 million and lower demand for commercial shipbuilding, (2) $82 million for Warrior Systems due to reduced U.S Army requirements for night vision and illumination products, and (3) $48 million for Precision Engagement due to lower volume from completed contracts.

Electronic Systems operating income for the year ended December 31, 2012 decreased by $47 million, or 7%, compared to the year ended December 31, 2011. Operating margin decreased by 100 basis points to 11.8%. Operating margin declined by 90 basis points primarily due to lower sales for Power & Control Systems and higher pension expense of $5 million, which reduced operating margin by 10 basis points.

Platform & Logistics Solution (P&LS)

	Year Ended December 31,			Year Ended December 31,		
	2013	2012	Decrease	2012	2011	Increase
			(dollars in millions)			
Net sales	$ 2,443	$ 2,483	(1.6)%	$ 2,483	$ 2,440	1.8%
Operating income	227	236	(3.8)%	236	228	3.5%
Operating margin	9.3%	9.5%	(20) bpts	9.5%	9.4%	10 bpts

2013 Compared with 2012

P&LS net sales for the year ended December 31, 2013 decreased by $40 million, or 2%, compared to the year ended December 31, 2012 due to a sales decline for Logistics Solutions. Platform Solutions sales remained substantially the same as 2012. The decrease in Logistics Solutions was primarily due to the competitive loss of a task order for U.S. Army contract field team support services in Southwest Asia, which was completed in 2012, and reduced fleet management services due to the loss of the JPATS contract for the USAF. These decreases were partially offset by increased volume for field maintenance and sustainment services for USAF training aircraft and U.S. Army C-12 aircraft. For Platform Solutions, higher volume on USAF EC-130 and international head of state aircraft, and aircraft maintenance for the Canadian Department of National Defence was offset by lower volume for U.S. Navy maritime patrol aircraft and Joint Cargo Aircraft (JCA), as well as reduced deliveries of aircraft cabin assemblies.

P&LS operating income for the year ended December 31, 2013 of $227 million, which included severance charges of $2 million, decreased by $9 million, or 4%, compared to the year ended December 31, 2012. Operating margin decreased by 20 basis points to 9.3% primarily due to the decrease in sales for Logistics Solutions.

2012 Compared with 2011

P&LS net sales for the year ended December 31, 2012 increased by $43 million, or 2%, compared to the year ended December 31, 2011. Platform Solutions sales increased by $129 million, which was partially offset by a sales decline of $86 million for logistic support services. The Platform Solutions increase was due primarily to volume on new contracts, including the Australia C-27J and international head-of-state aircraft modification contracts and increased scope on the USAF EC-130 aircraft. These increases were partially offset by lower JCA volume for the USAF. Logistics support services decreased due primarily to the loss of a task order for U.S. Army contract field team support services in Southwest Asia, partially offset by increased demand for field maintenance and sustainment services on a U.S. Army rotary wing aircraft contract that was competitively won in September 2011, and for U.S. Army C-12 aircraft.

P&LS operating income for the year ended December 31, 2012 increased by $8 million, or 4%, compared to the year ended December 31, 2011. Operating margin increased by 10 basis points to 9.5%. Unfavorable contract performance in 2011 primarily for JCA increased operating margin by 110 basis points. This increase was partially offset by sales mix changes, which reduced operating margin by 60 basis points, and an increase in pension expense of $9 million, which reduced operating margin by 40 basis points.

National Security Solutions (NSS)

	Year Ended December 31, 2013	2012	Increase/ (decrease)	Year Ended December 31, 2012	2011	Decrease
			(dollars in millions)			
Net sales	$ 1,295	$ 1,385	(6.5)%	$ 1,385	$ 1,610	(14.0)%
Operating income	85	79	7.6%	79	101	(21.8)%
Operating margin	6.6%	5.7%	90 bpts	5.7%	6.2%	(50) bpts

2013 Compared with 2012

NSS net sales for the year ended December 31, 2013 decreased by $90 million, or 7%, compared to the year ended December 31, 2012 primarily due to lower demand for a technical support contract for a U.S. Government agency due to U.S. Government sequestration cuts, and less demand for USSOCOM IT support services, as our previous single-award contract converted to several multiple-award contracts, which reduced our workshare.

NSS operating income for the year ended December 31, 2013 of $85 million increased by $6 million, or 8%, compared to the year ended December 31, 2012. Operating margin increased by 90 basis points to 6.6%. Operating margin increased by: (1) 70 basis points due to legal fees of $5 million related to a supplier dispute and a $4 million inventory write-down of security and safety equipment in 2012, which did not recur in 2013, (2) 50 basis points due to lower operating costs, and (3) 40 basis points for improved contract performance. These increases were partially offset by 70 basis points primarily due to lower sales and mix changes.

2012 Compared with 2011

NSS net sales for the year ended December 31, 2012 decreased by $225 million, or 14%, compared to the year ended December 31, 2011. Less demand for USSOCOM IT support services, due to our previous single-award contract converting to several multiple-award contracts, which reduced our work share, lowered sales by $82 million. A decline in IT support services for select non-DoD U.S. Government agencies lowered sales by $93 million comprised of: (1) $38 million due to customer IT spending reductions, and (2) $55 million due to contract losses in 2011 and 2012. Sales also declined by $50 million for intelligence support services due to the drawdown of U.S. military forces in Iraq.

NSS operating income for the year ended December 31, 2012 decreased by $22 million, or 22%, compared to the year ended December 31, 2011. Operating margin decreased by 50 basis points to 5.7%. The decrease in operating margin was due primarily to legal fees of $5 million related to a supplier dispute, which reduced operating margin by 40 basis points, and a $4 million inventory write-down for security and safety equipment, which reduced operating margin by 30 basis points. These decreases were partially offset by reduced overhead costs, which increased operating margin by 20 basis points.

Liquidity and Capital Resources

Anticipated Sources and Uses of Cash Flow

At December 31, 2013, we had total cash and cash equivalents of $500 million. While no amounts of the cash and cash equivalents are considered restricted, $251 million was held by the Company s foreign subsidiaries. The repatriation of cash held in non-U.S. jurisdictions is subject to local capital requirements, as well as income tax considerations. Our primary source of liquidity is cash flow generated from operations. We generated $1,263 million of cash from operating activities from continuing operations during the year ended December 31, 2013. Significant cash uses during the year ended December 31, 2013 included $800 million to repurchase shares of our common stock, $209 million for capital expenditures, $199 million for dividends and $62 million for business acquisitions.

As of December 31, 2013, we had the availability of substantially all of our $1 billion Amended and Restated Revolving Credit Facility, which expires on February 3, 2017. We currently believe that our cash from operating activities together with our cash on hand, and available borrowings under our Amended and Restated Revolving Credit Facility will be adequate for the foreseeable future to meet our anticipated requirements for working capital, capital expenditures, defined benefit plan contributions, commitments, contingencies, research and development expenditures, business acquisitions (depending on the size), contingent purchase price payments on previous business acquisitions, program and other discretionary investments, interest payments, income tax payments, L-3 Holdings dividends and share repurchases.

Our business may not continue to generate cash flow at current levels and, if we are unable to generate sufficient cash flow from operations to service our debt, we may be required to reduce costs and expenses, sell assets, reduce capital expenditures, reduce dividend payments, refinance all or a portion of our existing debt or obtain additional financing. We may not be able complete these initiatives on a timely basis, on satisfactory terms, or at all. Our ability to make scheduled principal payments or to pay interest on or to refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the U.S. defense industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Balance Sheet

Billed receivables increased by $47 million to $1,015 million at December 31, 2013 from $968 million at December 31, 2012 due to the timing of billings and collections primarily for airborne ISR Systems and Networked Communication Systems and $5 million from business acquisitions. These increases were partially offset by a decrease due to lower sales primarily for Microwave Products.

Contracts in process decreased by $73 million to $2,524 million at December 31, 2013 from $2,597 million at December 31, 2012. During the year ended December 31, 2013, Company owned aircraft became held for sale and were transferred from net property plant and equipment (PP&E) to inventoried contract costs, increasing contracts in process by $21 million. This increase was offset by a decrease of $94 million comprised of:

- Decreases of $112 million in unbilled contract receivables primarily due to billing and liquidations for deliveries of ISR Systems and Networked Communication Systems, partially offset by an increase due to sales exceeding billings for Sensor Systems; and

- increases of $18 million in inventoried contract costs due to the timing of deliveries across several business areas, primarily Platform Solutions.

L-3 s receivables days sales outstanding (DSO) was 73 at December 31, 2013, compared with 72 at December 31, 2012. We calculate our DSO by dividing: (1) our aggregate end of period billed receivables and net unbilled contract receivables, by (2) our trailing 12 month sales adjusted, on a pro forma basis, to include sales from business acquisitions and exclude sales from business divestitures that we completed as of the end of the period, multiplied by the number of calendar days in the trailing 12 month period (365 days at December 31, 2013 and 366 days at December 31, 2012). Our trailing 12 month pro forma sales were $12,664 million at December 31, 2013 and $13,240 million at December 31, 2012. The increase in our DSO was primarily due to a greater decline in our trailing 12 month sales as compared to the decline in our aggregate billed receivables and net unbilled contract receivables.

The increase in current deferred income tax assets was primarily due to compensation and benefit items from a tax accounting method change elected in a prior year.

The increase in PP&E was primarily due to capital expenditures, partially offset by depreciation expense.

Goodwill increased by $20 million to $7,796 million at December 31, 2013 from $7,776 million at December 31, 2012. The table below presents the changes in goodwill by segment.

	C^3ISR	Electronic Systems	P&LS (in millions)	NSS	Consolidated Total
Balance at December 31, 2012	$ 797	$ 4,836	$ 1,175	$ 968	$ 7,776
Business acquisition(1)		44			44
Business disposition		(2)			(2)
Foreign currency translation(2)		(3)	(19)		(22)
Balance at December 31, 2013	$ 797	$ 4,875	$ 1,156	$ 968	$ 7,796

(1) The increase in goodwill for the Electronics Systems segment is due to the Mustang business acquisition.
(2) The changes in goodwill from foreign currency translation adjustments are due to fluctuations in the U.S. dollar and foreign currency exchange rates. The decreases in goodwill presented in the Electronic Systems and P&LS segments during 2013 were primarily due to the strengthening of the U.S. dollar against the Canadian dollar and Australian dollar, partially offset by the weakening of the U.S. dollar against the Euro and British pound.

The decrease in identifiable intangible assets was primarily due to amortization expense, partially offset by the recognition of customer contractual relationships and technology intangibles for the Mustang business acquisition.

The increase in other assets was primarily due to higher long-term receivables for leased training systems and capitalized software costs.

The fluctuation in accounts payable and accrued expenses was primarily due to the timing of when invoices for purchases from third-party vendors and subcontractors were received and payments were made.

The decrease in advance payments and billings in excess of costs incurred was primarily due to the liquidation of balances on contracts for Sensor Systems, ISR Systems, Platform Solutions and Networked Communication Systems and $2 million of foreign currency translation adjustments. These decreases were partially offset by the collection of milestone payments for Warrior Systems and performance based billings related to contracts with international customers for Marine & Power Systems.

The increase in long-term deferred income tax liabilities was primarily due to the decrease in the deferred tax asset for pension liabilities (due to the reduction in the pension plans unfunded status) and the tax amortization of certain goodwill and other identifiable intangible assets during 2013.

Pension Plans

L-3 maintains defined benefit pension plans covering approximately 25% of its employees at certain businesses. At December 31, 2013, L-3 s projected benefit obligation (PBO), which includes accumulated benefits plus the incremental benefits attributable to projected future salary increases for covered employees, was $2,973 million and exceeded the fair value of L-3 s pension plan assets of $2,403 million by $570 million. At December 31, 2012, L-3 s PBO was $3,222 million and exceeded the fair value of L-3 s pension plan assets of $2,026 million by $1,196 million. The $626 million decrease in our unfunded status was primarily due to: (1) the increase in our weighted average discount rate from 4.15% at December 31, 2012 to 5.03% at December 31, 2013, (2) our 2013 actual pension plan asset return of approximately 20%, which was higher than our weighted average expected long-term rate of return assumption of 8.13%, and (3) 2013 employer pension contributions.

The expected long-term return on plan assets assumption represents the average rate that the Company expects to earn over the long-term on the assets of the Company s benefit plans, including those from dividends, interest income and capital appreciation. The Company utilizes a third-party consultant to assist in the development of the expected long-term return on plan assets, which is based on expectations regarding future long-term rates of

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return for the plans investment portfolio, with consideration given to the allocation of investments by asset class and historical rates of return for each individual asset class. While we also review historical rates of return on our plan assets, the substantial volatility in any one year can result in historical data that is less indicative of future returns. In reviewing our historical returns, we noted that the average annual return on the Company s pension plan assets for the 10 year period of 2004 through 2013, net of investment management fees and administrative costs, was 7.50%. However, excluding 2008 during which global financial markets experienced the worst financial crisis since the Great Depression, the average annual return was 11.40%, which is higher than the 8.13% weighted average expected long-term rate of return assumption utilized for the year ended December 31, 2013.

We recorded net actuarial gains of $623 million in the year ended December 31, 2013 primarily due to the increase in our weighted average discount rate as noted above, which is reflected in accumulated other comprehensive loss. Actuarial gains and losses in a period represent the difference between actual and actuarially assumed experience, primarily due to discount rates and pension plan asset returns. Actuarial gains and losses that our pension plans experience are not recognized in pension expense in the year incurred, but rather are recorded as a component of accumulated other comprehensive income (loss). The accumulated gains and losses in excess of a corridor, defined as the greater of 10% of the fair value of a plan s assets and 10% of its projected benefit obligation, are generally amortized to pension expense in future periods over the estimated average remaining service periods of the covered employees. See Note 20 to our audited consolidated financial statements.

Our pension expense for 2013 was $181 million. We currently expect pension expense for 2014 to decrease $101 million to approximately $80 million primarily due to the increase in our weighted average discount rate as noted above and expected asset returns on higher plan assets following our 2013 actual returns and contributions.

Our pension expense for 2014 may be different from our current expectations when finalized due to a number of factors, including the effect of any future business acquisitions for which we assume liabilities for pension benefits, changes in headcount at our businesses that sponsor pension plans, actual pension plan contributions and changes (if any) to our pension assumptions for 2014, including the discount rate, expected long-term return on plan assets and salary increases.

Our contributions for 2013 were $105 million and we currently expect to contribute between approximately $97 million and $108 million to our pension plans in 2014. Actual 2014 pension contributions could be affected by changes in the funded status of our pension plans during 2013. A substantial portion of our pension plan contributions for L-3 s businesses that are U.S. Government contractors are recoverable as allowable indirect contract costs at amounts generally equal to the annual pension contributions.

Our projected benefit obligation and annual pension expense are significantly affected by, holding all other assumptions constant, certain actuarial assumptions. The following table illustrates the sensitivity of a change in certain assumptions for our pension plans and resulting increase (decrease) to the 2014 expected pension expense and PBO at December 31, 2013.

	Effect on 2014 Pension Expense	**Effect on December 31, 2013 PBO**
	(in millions)	
25 basis point decrease in discount rate	$ 11	$ 99
25 basis point increase in discount rate	(9)	(94)

25 basis point decrease in expected return on assets	6	N/A
25 basis point increase in expected return on assets	(6)	N/A

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Statement of Cash Flows

The table below provides a summary of our cash flows from operating, investing, and financing activities for the periods indicated.

	Year Ended December 31,		
	2013	2012	2011
		(in millions)	
Net cash from operating activities from continuing operations	$ 1,263	$ 1,231	$ 1,231
Net cash used in investing activities from continuing operations	(261)	(200)	(199)
Net cash used in financing activities from continuing operations	(849)	(1,527)	(1,119)

Operating Activities Continuing Operations

2013 Compared with 2012. We generated $1,263 million of cash from operating activities during the year ended December 31, 2013, an increase of $32 million compared with $1,231 million generated during the year ended December 31, 2012. The increase was due to $118 million of less cash used for changes in operating assets and liabilities primarily due to lower income tax payments and pension plan contributions. This increase was partially offset by a decrease of $86 million, primarily for lower non-cash expenses due to deferred income taxes. Deferred income taxes were lower during the year ended December 31, 2013 primarily due to a decline in pension contributions and the related impact on income taxes. The net cash from changes in operating assets and liabilities is further discussed above under Liquidity and Capital Resources Balance Sheet.

2012 Compared with 2011. We generated $1,231 million of cash from operating activities during the year ended December 31, 2012, which was unchanged when compared with $1,231 million generated during the year ended December 31, 2011. Operating cash flow increased $116 million due to more cash generated from changes in operating assets and liabilities primarily for collections of billed receivables and advance payments and billings in excess of costs incurred, partially offset by higher tax payments. This increase was offset by $76 million of lower net income and $40 million of lower non-cash expenses primarily for a 2011 non-cash goodwill impairment charge of $43 million that did not recur in 2012. The net cash from changes in operating assets and liabilities is further discussed above under Liquidity and Capital Resources Balance Sheet.

Interest Payments. Our cash from operating activities included interest payments on debt of $171 million for the year ended December 31, 2013, $198 million for the year ended December 31, 2012, and $238 million for the year ended December 31, 2011. Our interest expense also included amortization of deferred debt issuance costs and bond discounts, which are non-cash items.

Investing Activities Continuing Operations

During 2013, we used $261 million of cash primarily to: (1) acquire a business discussed under Business Acquisitions and Divestitures and (2) pay $209 million for capital expenditures. These cash outflows were partially offset by proceeds of $12 million from dispositions of property, plant and equipment.

During 2012, we used $200 million of cash primarily to: (1) acquire three businesses discussed under Business Acquisitions and Divestitures and (2) pay $210 million for capital expenditures. These cash outflows were partially offset by $335 million of cash received from the spin-off of Engility and $20 million of cash received from the dissolution of an unconsolidated joint venture.

During 2011, we used $199 million of cash primarily to: (1) acquire two businesses discussed under Business Acquisitions and Divestitures and (2) pay $187 million for capital expenditures.

Financing Activities Continuing Operations

Debt

At December 31, 2013, total outstanding debt was $3,630 million, comprised of $2,941 million of senior debt and $689 million of CODES, compared to $3,629 million at December 31, 2012, of which $2,940 million was senior debt and $689 million was CODES. At December 31, 2013, we had the availability of substantially all of our $1 billion Amended and Restated Revolving Credit Facility. We also had $634 million of other standby letters of credit at December 31, 2013, that may have been drawn upon in the event that we did not perform on certain of our contractual requirements. There were no borrowings outstanding under our Amended and Restated Revolving Credit Facility at December 31, 2013. At December 31, 2013, our outstanding debt matures between November 15, 2016 and August 1, 2035. See Note 10 to our audited consolidated financial statements for the components of our debt at December 31, 2013.

Debt Issuances

The terms of each of the outstanding Senior Notes issued by L-3 Communications during the year ended December 31, 2011 are presented in the table below. There were no debt issuances during the years ended December 31, 2013 and 2012.

Note	Date of Issuance	Amount Issued	Discount (in millions)	Net Cash Proceeds	Effective Interest Rate	Redemption at Treasury Rate+
3.95% Senior Notes due November 15, 2016	November 22, 2011	$ 500	$ 4	$ 491	4.11%	50 bps
4.95% Senior Notes due February 15, 2021	February 7, 2011	$ 650	$ 4	$ 639	5.02%	25 bps

Debt Repayments

In connection with the spin-off, Engility made a cash distribution of $335 million to L-3. L-3 Communications used a portion of the proceeds to redeem $250 million of the 6 3⁄8% 2015 Notes on July 26, 2012. Also, on October 15, 2012, L-3 Communications redeemed the remaining outstanding $250 million of its 6 3⁄8% 2015 Notes. Information on the Senior Subordinated Notes we redeemed during the years ended December 31, 2012 and 2011 is presented in the table below. There were no debt repayments during the year ended December 31, 2013.

Note	Redemption Date	Principal Amount Redeemed	Debt Retirement Charge (in millions)	Redemption Price % of Principal
6 3⁄8% Senior Subordinated Notes due October 15, 2015	October 15, 2012	$ 250	$ 5	101.063%
6 3⁄8% Senior Subordinated Notes due October 15, 2015	July 26, 2012	$ 250	$ 8	102.125%
6 3⁄8% Senior Subordinated Notes due October 15, 2015	December 22, 2011	$ 500	$ 17	102.125%
5 7⁄8% Senior Subordinated Notes due January 15, 2015	March 9, 2011	$ 650	$ 18	101.958%

On February 2, 2011, we repurchased approximately $11 million of our CODES as a result of the exercise by the holders of their contractual right to require us to repurchase their CODES. The CODES are subject to redemption at the option of L-3 Holdings, in whole or in part, at a cash redemption price (plus accrued and unpaid interest, including contingent interest and additional interest, if any) equal to 100% of the principal amount of CODES. We may, from time to time, make open market purchases of our outstanding debt securities, including the CODES. Whether or not we repurchase any of our outstanding debt securities, including the CODES, the amount of any such repurchases will vary depending on numerous factors, including, without limitation, the trading price of our debt, other market conditions, our ongoing capital allocation planning, the levels of our cash and debt balances, other demands for cash, such as acquisition activity, and general economic conditions.

Debt Covenants and Other Provisions. The Amended and Restated Revolving Credit Facility and Senior Notes contain financial and/or other restrictive covenants. See Note 10 to our audited consolidated financial statements for a description of our debt and related financial covenants, including cross default provisions. We were in compliance with our financial and other restrictive covenants at December 31, 2013 and 2012.

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Under select conditions, including if L-3 Holding s common stock price is more than 120% (currently $108.29) of the then current conversion price (currently $90.24) for a specified period, the conversion feature of the CODES will require L-3 Holdings, upon conversion, to pay the holders of the CODES the principal amount in cash, and if the settlement amount exceeds the principal amount, the excess will be settled in cash or stock or a combination thereof, at our option. See Note 10 to our audited consolidated financial statements for additional information regarding the CODES, including conditions for conversion. L-3 Holdings closing stock price of February 19, 2014 was $113.67 per share.

Guarantees. The borrowings under the Amended and Restated Revolving Credit Facility are fully and unconditionally guaranteed by L-3 Holdings and by substantially all of the material 100% owned domestic subsidiaries of L-3 Communications on an unsecured senior basis. The payment of principal and premium, if any, and interest on the Senior Notes is fully and unconditionally guaranteed, on an unsecured senior basis, jointly and severally, by L-3 Communications material wholly-owned domestic subsidiaries that guarantee any of its other indebtedness. The payment of principal and premium, if any, and interest on the CODES is fully and unconditionally guaranteed, on an unsecured senior subordinated basis, jointly and severally, by L-3 Communications and its wholly-owned domestic subsidiaries that guarantee any of its other liabilities.

Subordination. The guarantees of the Amended and Restated Revolving Credit Facility and the Senior Notes rank senior to the guarantees of the CODES and rank pari passu with each other.

Equity

During 2013 and 2012, L-3 Holdings Board of Directors authorized the following quarterly cash dividends:

Date Declared	Record Date	Cash Dividends Per Share	Date Paid	Total Dividends Paid (in millions)
2013				
February 5	March 1	$ 0.55	March 15	$ 50
April 30	May 17	$ 0.55	June 17	$ 49
June 19	August 19	$ 0.55	September 16	$ 50
October 22	November 18	$ 0.55	December 16	$ 48
2012				
February 7	March 1	$ 0.50	March 15	$ 49
April 24	May 17	$ 0.50	June 15	$ 49
June 26	August 17	$ 0.50	September 17	$ 48
October 24	November 19	$ 0.50	December 17	$ 46

In addition to the dividends paid as shown in the table above, the Company also paid $2 million and $3 million of previously accrued dividends related to vested employee stock-based awards in 2013 and 2012, respectively. L-3 Holdings repurchased $800 million, or 8.7 million shares, of its common stock during the year ended December 31, 2013 compared to $872 million, or 12.1 million shares, of its common stock during the year ended December 31, 2012.

L-3 Holdings announced, on February 11, 2014, that its Board of Directors had increased L-3 Holdings regular quarterly cash dividend by 9% to $0.60 per share, payable on March 17, 2014, to shareholders of record at the close of business on March 3, 2014.

The number of holders of L-3 Holdings common stock, on February 14, 2014, was approximately 27,917. On February 19, 2014, the closing price of L-3 Holdings common stock, as reported by the NYSE, was $113.67 per share.

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Contractual Obligations

The table below presents our estimated total contractual obligations from our continuing operations at December 31, 2013, including the amounts expected to be paid or settled for each of the periods indicated below.

			Payments due by period		
	Total	Less than 1 year	1 3 years	3 5 years	More than 5 years
			(in millions)		
Contractual Obligations					
L-3 Communications long-term debt[1]	$ 2,950	$	$ 500	$	$ 2,450
L-3 Holdings long-term debt[1][2]	689				689
Interest payments[3]	1,334	163	325	286	560
Non-cancelable operating leases[4]	548	150	168[5]	120	110
Notes payable and capital lease obligations	25	10	13	1	1
Purchase obligations[6]	2,353	1,822	493	11	27
Other long-term liabilities[7]	282	118[8]	104	25	35
Total[9]	$ 8,181	$ 2,263	$ 1,603	$ 443	$ 3,872

(1) Represents principal amount of long-term debt and only includes scheduled principal payments.

(2) The CODES are convertible into cash and shares of L-3 Holdings common stock based on a conversion rate of 11.0813 shares of L-3 Holdings common stock per one thousand dollars in principal amount of the CODES (equivalent to a current conversion price of $90.24 per share). The conversion feature of the CODES may require L-3 Holdings to settle the principal amount with the holders of the CODES if L-3 Holdings common stock price is more than 120% of the then current conversion price (currently $108.29) for a specified period, and if the settlement amount exceeds the principal amount, the excess will be settled in cash or stock or a combination thereof, at our option. Additionally, holders of the CODES may require L-3 Holdings to repurchase the CODES, in whole or in part, on February 1, 2016, February 1, 2021, February 1, 2026 and February 1, 2031 at a cash repurchase price equal to 100% of the principal amount of the CODES (plus accrued and unpaid interest, if any). See Note 10 to our audited consolidated financial statements for additional information regarding the CODES, including conditions for conversion and contingent interest features. L-3 Holdings stock price on February 19, 2014 was $113.67.

(3) Represents expected interest payments on L-3 s long-term debt balance as of December 31, 2013 using the stated interest rate on our fixed rate debt, assuming that current borrowings remain outstanding to the contractual maturity date.

(4) Non-cancelable operating leases are presented net of estimated sublease rental income.

(5) Includes the residual value guarantee for two real estate lease agreements, expiring on August 31, 2015, that are accounted for as operating leases. We have the right to exercise options under the lease agreements to renew the leases, to purchase both properties for $28 million or sell both properties on behalf of the lessor. If we elect to sell the properties, we must pay the lessor a residual value guarantee of $23 million. See Note 19 to our audited consolidated financial statements for a further description of these leases.

(6) Represents open purchase orders at December 31, 2013 for amounts expected to be paid for goods or services that are legally binding.

(7) Other long-term liabilities primarily consist of workers compensation and deferred compensation for the years ending December 31, 2015 and thereafter and also include pension and postretirement benefit plan contributions that we expect to pay in 2014.

(8) Our pension and postretirement benefit plan funding policy is generally to contribute in accordance with cost accounting standards that affect government contractors, subject to the Internal Revenue Code and regulations thereon. For 2014, we expect to contribute between $97 million and $108 million to our pension plans and approximately $10 million to our postretirement benefit plans. Due to the current uncertainty of the amounts used to compute our expected pension and postretirement benefit plan funding, we believe it is not practicable to reasonably estimate such future funding for periods in excess of one year and we may decide or be required to contribute more than we expect to our pension and postretirement plans.

(9) Excludes all income tax obligations, a portion of which represents unrecognized tax benefits in connection with uncertain tax positions taken, or expected to be taken on our income tax returns as of December 31, 2013 since we cannot determine the time period of future tax consequences. For additional information regarding income taxes, see Note 17 to our audited consolidated financial statements.

Off Balance Sheet Arrangements

The table below presents our estimated total contingent commitments and other guarantees at December 31, 2013, including the amounts expected to be paid or settled for each of the periods indicated below.

			Payments due by period		
	Total	**2014**	**2015-2016**	**2017-2018**	**2019 and thereafter**
			(in millions)		
Contingent Commitments					
Other standby letters of credit[1]	$ 634	$ 440	$ 116	$ 66	$ 12
Other guarantees[2]	7			7	
Contingent commitments for earnout payments on business acquisitions[3]	10		10		
Total[4]	$ 651	$ 440	$ 126	$ 73	$ 12

(1) Represents outstanding letters of credit with financial institutions covering performance and financial guarantees per contractual requirements with certain customers. These letters of credit may be drawn upon in the event of L-3 s nonperformance.

(2) Represents the minimum guarantees made by L-3 or the lessee under the purchase option for certain operating leases in which the lease renewal is not exercised (see Note 19 to our audited consolidated financial statements for a description of these guarantees).

(3) Represents potential additional contingent purchase payments for business acquisitions that are contingent upon the post-acquisition financial performance or certain other performance conditions of the acquired businesses in accordance with the contractual purchase agreement.

(4) The total amount does not include residual value guarantees for two real estate lease agreements that are accounted for as operating leases. We have the right to exercise options under the lease agreements to purchase both properties for $28 million on or before August 31, 2015. See Note 19 to our audited consolidated financial statements for a further description of these leases.

Legal Proceedings and Contingencies

We are engaged in providing products and services under contracts with the U.S. Government and, to a lesser degree, under international government contracts, some of which are funded by the U.S. Government. All such contracts are subject to extensive legal and regulatory requirements, and, periodically, agencies of the U.S. Government investigate whether such contracts were and are being conducted in accordance with these requirements. Under U.S. Government procurement regulations, an indictment by a federal grand jury, or an administrative finding against us as to our present responsibility to be a U.S. Government contractor or subcontractor, could result in the suspension for a period of time from eligibility for awards of new government contracts or task orders or in a loss of export privileges. A conviction, or an administrative finding that satisfies the requisite level of seriousness, could result in debarment from contracting with the federal government for a specified term. We are currently cooperating with the U.S. Government on several investigations, none of which we anticipate will have a material adverse effect on our consolidated financial position, results of operations or cash flows. Also, we have been periodically subject to litigation, government investigations, proceedings, claims or assessments and various contingent liabilities incidental to our business. We accrue for these contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. For a description of our legal proceedings and contingencies, see Note 19 to our audited consolidated financial statements.

We continually assess our obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost that we will incur to comply with these laws, based upon available internal and external assessments, with respect to those environmental loss contingencies of which we are aware, we believe that even without considering potential insurance recoveries, if any, there are no environmental loss contingencies that, in the aggregate, would be material to our consolidated financial position, results of operations or cash flows.

Derivative Financial Instruments and Other Market Risk

Included in our derivative financial instruments are foreign currency forward contracts. All of our derivative financial instruments that are sensitive to market risk are entered into for purposes other than trading.

Interest Rate Risk. Our Amended and Restated Revolving Credit Facility is subject to variable interest and is therefore sensitive to changes in interest rates. The interest rates on the Senior Notes and CODES are fixed-rate and are not affected by changes in interest rates. Additional data on our debt obligations and our applicable borrowing spreads included in the interest rates we would pay on borrowings under the Amended and Restated Revolving Credit Facility, if any, are provided in Note 10 to our audited consolidated financial statements.

Foreign Currency Exchange Risk. Our U.S. and foreign businesses enter into contracts with customers, subcontractors or vendors that are denominated in currencies other than their functional currencies. To protect the functional currency equivalent cash flows associated with certain of these contracts, we enter into foreign currency forward contracts, which are generally designated and accounted for as cash flow hedges. At December 31, 2013, our foreign currency forward contracts had maturities ranging through 2018, a notional value of $321 million and a corresponding fair value that was an asset of $1 million.

Accounting Standards Issued and Not Yet Implemented

For a discussion of accounting standards issued and not yet implemented, see Note 2 to our audited consolidated financial statements.

Inflation

The effect of inflation on our sales and earnings has not been significant. Although a majority of our sales are made under long-term contracts (revenue arrangements), the selling prices of such contracts, established for deliveries in the future, generally reflect estimated costs to be incurred in these future periods. In addition, some of our contracts provide for price adjustments through cost escalation clauses.

Forward-Looking Statements

Certain of the matters discussed concerning our operations, cash flows, financial position, economic performance and financial condition, including in particular, the likelihood of our success in developing and expanding our business and the realization of sales from backlog, include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act.

All statements other than historical facts, may be forward-looking statements, such as may, will, should, likel projects, expects, anticipates, intends, plans, believes, estimates, and similar expressions are usec 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.

In addition, 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 19 to our audited consolidated financial statements, in each case included in this Annual Report on Form 10-K for the year ended December 31, 2013.

Readers of this document are cautioned that 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 this filing to reflect events or changes in circumstances or changes in expectations or the occurrence of anticipated events.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For data regarding quantitative and qualitative disclosures related to our market risk sensitive financial instruments, see Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Derivative Financial Instruments and Other Market Risk and Note 14 to our audited consolidated financial statements. See Notes 13 and 15 to our audited consolidated financial statements for the aggregate fair values and notional amounts of our foreign currency forward contracts at December 31, 2013.

Item 8. Financial Statements and Supplementary Data

See our audited consolidated financial statements beginning on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 related to L-3 Holdings and L-3 Communications is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms, and that such information is accumulated and communicated to our management, including our Chairman, President and Chief Executive Officer, and our Senior Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chairman, President and Chief Executive Officer, and our Senior Vice President and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2013. Based upon that evaluation, our Chairman, President and Chief Executive Officer, and our Senior Vice President and Chief Financial Officer concluded that, as of December 31, 2013, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

As required by the SEC s rules and regulations for the implementation of Section 404 of the Sarbanes-Oxley Act, our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our consolidated financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of L-3, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements in our consolidated financial statements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of L-3 Holdings and L-3 Communications internal control over financial reporting as of December 31, 2013. In making these assessments, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework (1992)*. Based on our assessments and those criteria, management determined that L-3 Holdings and L-3 Communications maintained effective internal control over financial reporting as of December 31, 2013.

The effectiveness of the Company s internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report. See page F-2 to our audited consolidated financial statements for their report.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The Company posts its Code of Ethics and Business Conduct on the Corporate Governance webpage at its website at http://www.L-3com.com under the link Code of Ethics and Business Conduct . The Company s Code of Ethics and Business Conduct applies to all directors, officers and employees, including our chairman, president and chief executive officer, our senior vice president and chief financial officer, and our corporate controller and principal accounting officer. We will post any amendments to the Code of Ethics and Business Conduct, and any waivers that are required to be disclosed by the rules of either the SEC or the NYSE, on our website within the required periods.

The remaining information called for by Item 10 will be included in the sections captioned Proposal 1. Election of Directors , Continuing Members of the Board of Directors , Executives and Certain Other Officers of the Company and Section 16(A) Beneficial Ownership Reporting Compliance , The Board of Directors and Certain Governance Matters in the definitive proxy statement (the Company s Proxy Statement) relating to the Company s 2014 Annual Meeting of Shareholders, to be held on May 6, 2014, and is incorporated herein by reference. L-3 Holdings will file its proxy statement with the SEC pursuant to Regulation 14A within 120 days after the end of the Company s 2013 fiscal year covered by this Form 10-K.

Item 11. Executive Compensation

The following sections of the Company s Proxy Statement are incorporated herein by reference: Compensation Discussion and Analysis , Compensation Committee Report , Tabular Executive Compensation Disclosure , Compensation of Directors and Compensation Committee Interlocks and Insider Participation .

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The Security Ownership of Certain Beneficial Owners , Security Ownership of Management , and Equity Compensation Plan Information sections of the Company s Proxy Statement are incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The Certain Relationships and Related Transactions and The Board of Directors and Certain Governance Matters sections of the Company s Proxy Statement are incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The Independent Registered Public Accounting Firm Fees section of the Company s Proxy Statement is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

(a)(1) Financial statements filed as part of this report:

(a)(2) Financial Statement Schedules

Financial statement schedules are omitted since the required information is either not applicable or is included in our audited consolidated financial statements.

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Exhibits

Exhibit No.	Description of Exhibits
2.1	Distribution Agreement between L-3 Communications Holdings, Inc. and Engility Holdings, Inc. dated as of July 16, 2012 (incorporated by reference to Exhibit 2.1 to the Registrants Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File Nos. 001-14141 and 333-46983)).
3.1	Amended and Restated Certificate of Incorporation of L-3 Communications Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Registrants Current Report on Form 8-K filed on May 2, 2013 (File Nos. 001-14141 and 333-46983)).
3.2	Amended and Restated By-Laws of L-3 Communications Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Registrants Current Report on Form 8-K filed on May 2, 2013 (File Nos. 001-14141 and 333-46983)).
3.3	Certificate of Incorporation of L-3 Communications Corporation (incorporated by reference to Exhibit 3.1 to L-3 Communications Corporation s Registration Statement on Form S-4 (File No. 333-31649)).
3.4	Amended and Restated Bylaws of L-3 Communications Corporation (incorporated by reference to Exhibit 3.2 to the Registrants Current Report on Form 8-K filed on December 17, 2007 (File Nos. 001-14141 and 333-46983)).
4.1	Form of Common Stock Certificate of L-3 Communications Holdings, Inc. (incorporated by reference to Exhibit 4.1 to the Registrants Quarterly Report on Form 10-Q for the quarter ended June 25, 2010 (File Nos. 001-14141 and 333-46983)).
4.2	Indenture dated as of July 29, 2005 (CODES Indenture) among L-3 Communications Holdings, Inc., the guarantors named therein and The Bank of New York Mellon (formerly known as The Bank of New York), as Trustee (incorporated by reference to Exhibit 10.70 to the Registrants Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File Nos. 001-14141 and 333-46983)).
4.3	Supplemental Indenture dated as of February 3, 2012 among L-3 Communications Holdings, Inc., The Bank of New York Mellon (formerly known as The Bank of New York), as trustee, and the guarantors named therein to the CODES Indenture dated as of July 29, 2005 among L-3 Communications Holdings, Inc., the guarantors named therein and The Bank of New York Mellon, as trustee.
4.4	Indenture dated as of October 2, 2009 among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon, as Trustee (incorporated by reference to Exhibit 4.15 to the Registrants Quarterly Report on Form 10-Q for the quarter ended September 25, 2009 (File Nos. 001-14141 and 333-46983)).
4.5	Supplemental Indenture dated as of February 3, 2012 among L-3 Communications Corporation, The Bank of New York Mellon, as trustee, and the guarantors named therein to the Indenture dated as of October 2, 2009 among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon, as trustee.
4.6	Indenture, dated as of May 21, 2010, among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Registrants Current Report on Form 8-K dated May 24, 2010 (File Nos. 001-14141 and 333-46983)).
4.7	First Supplemental Indenture, dated as of May 21, 2010, among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to the Registrants Current Report on

	Form 8-K dated May 24, 2010 (File Nos. 001-14141 and 333-46983)).
4.8	Second Supplemental Indenture, dated as of February 7, 2011, among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.2 to the

Exhibit No.	Description of Exhibits
	Registrants Current Report on Form 8-K dated February 8, 2011 (File Nos. 001-14141 and 333-46983)).
4.9	Third Supplemental Indenture, dated as of November 22, 2011, among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A, as Trustee (incorporated by reference to Exhibit 4.2 to the Registrants Current Report on Form 8-K dated November 22, 2011 (File Nos. 001-14141 and 333-46983)).
4.10	Fourth Supplemental Indenture, dated as of February 3, 2012, among L-3 Communications Corporation, the guarantors named therein and The Bank of New York Mellon Trust Company, N.A, as Trustee.
10.1	Amended and Restated Credit Agreement, dated as of February 3, 2012, among L-3 Communications Corporation, L-3 Communications Holdings, Inc. and certain subsidiaries of the Registrants from time to time party thereto as guarantors, certain lenders from time to time party thereto, and Bank of America, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Registrants Current Report on Form 8-K dated February 3, 2012 (File Nos. 001-14141 and 333-46983)).
10.2	L-3 Communications Holdings, Inc. 1997 Option Plan for Key Employees (incorporated by reference to Exhibit 10.91 to L-3 Communications Holdings, Inc. s Registration Statement on Form S-1 (File No. 333-46975)).
10.3	Form of L-3 Communications Holdings, Inc. 1997 Option Plan for Key Employees Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.9 to L-3 Communications Holdings, Inc. s Registration Statement on Form S-1 (File No. 333-46975)).
10.4	L-3 Communications Holdings, Inc. Amended and Restated 1998 Directors Stock Option Plan for Non-Employee Directors (incorporated by reference to Exhibit 10.16 to the Registrants Annual Report on Form 10-K for the year ended December 31, 2006 (File Nos. 001-14141 and 333-46983)).
10.5	Form of L-3 Communications Holdings, Inc. 1998 Directors Stock Option Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.96 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2004 (File Nos. 001-14141 and 333-46983)).
10.6	Form of L-3 Communications Holdings, Inc. 1998 Directors Stock Option Plan Nonqualified Stock Option Agreement (2007 Version) (incorporated by reference to Exhibit 10.3 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2008 (File Nos. 001-14141 and 333-46983)).
10.7	L-3 Communications Holdings, Inc. Amended and Restated 1999 Long Term Performance Plan (Conformed copy reflecting all amendments through February 11, 2008) (incorporated by reference to Exhibit 10.4 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2008 (File Nos. 001-14141 and 333-46983)).
10.8	Form of L-3 Communications Holdings, Inc. 1999 Long Term Performance Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.97 of the Registrants Quarterly Report on Form 10-Q for the period ended September 30, 2004 (File Nos. 001-14141 and 333-46983)).
10.9	Form of L-3 Communications Holdings, Inc. 1999 Long Term Performance Plan Nonqualified Stock Option Agreement (2006 Version) (incorporated by reference to Exhibit 10.64 to the Registrants Annual Report on Form 10-K for the year ended December 31, 2006 (File Nos. 001-14141 and 333-46983)).
*10.10	L-3 Communications Holdings, Inc. 2008 Amended and Restated Long Term Performance Plan.

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Exhibit No.	Description of Exhibits
10.11	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Nonqualified Stock Option Agreement (2008 Version) (incorporated by reference to Exhibit 10.2 of the Registrants Quarterly Report on Form 10-Q for the period ended June 27, 2008 (File Nos. 001-14141 and 333-46983)).
10.12	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Nonqualified Stock Option Agreement (2009 Version) (incorporated by reference to Exhibit 10.1 of the Registrants Quarterly Report on Form 10-Q for the period ended June 26, 2009 (File Nos. 001-14141 and 333-46983)).
10.13	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Nonqualified Stock Option Agreement (2011 Version) (incorporated by reference to Exhibit 10.12 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2010 (file Nos. 001-14141 and 333-46983)).
10.14	Form of Amended and Restated L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Nonqualified Stock Option Agreement (2011 and 2012 CEO Version) (incorporated by reference to Exhibit 10.14 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).
10.15	Form of Amended and Restated L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Nonqualified Stock Option Agreement (2013 CEO Version) (incorporated by reference to Exhibit 10.4 of the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.16	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Restricted Stock Unit Agreement (2009 Version) (incorporated by reference to Exhibit 10.17 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2008 (File Nos. 001-14141 and 333-46983)).
10.17	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Restricted Stock Unit Agreement (2013 CEO Version) (incorporated by reference to Exhibit 10.5 of the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.18	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Restricted Stock Unit Agreement (2013 CEO Direct Report Version) (incorporated by reference to Exhibit 10.6 of the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.19	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Restricted Stock Unit Agreement (Non-Employee Directors Version) (incorporated by reference to Exhibit 10.7 of the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.20	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Performance Unit Agreement (2010 Version) (incorporated by reference to Exhibit 10.17 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2009 (File Nos. 001-14141 and 333-46983)).
10.21	Form of L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Performance Unit Agreement (2012 Version) (incorporated by reference to Exhibit 10.18 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2011 (File Nos. 001-14141 and 333-46983)).
10.22	Form of Amended and Restated L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Performance Unit Award Notice (2010 Version) (incorporated by reference to Exhibit 10.18

of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).

Exhibit No.	Description of Exhibits
10.23	Form of Amended and Restated L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Performance Unit Award Notice (2011 Version) (incorporated by reference to Exhibit 10.19 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).
10.24	Form of Amended and Restated L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Performance Unit Award Notice (2012 Version) (incorporated by reference to Exhibit 10.20 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).
10.25	Form of Amended and Restated L-3 Communications Holdings, Inc. 2008 Long Term Performance Plan Performance Unit Award Notice (2013 Version) (incorporated by reference to Exhibit 10.8 to the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.26	L-3 Communications Holdings, Inc. 2012 Cash Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrants Quarterly Report on Form 10-Q for the period ended March 30, 2012 (File Nos. 001-14141 and 333-46983)).
10.27	Form of L-3 Communications Holdings, Inc. 2012 Cash Incentive Plan Performance Cash Award Agreement (2012 version) (incorporated by reference to Exhibit 10.2 of the Registrants Quarterly Report on Form 10-Q for the period ended March 30, 2012 (File Nos. 001-14141 and 333-46983)).
10.28	Form of L-3 Communications Holdings, Inc. 2012 Cash Incentive Plan Performance Cash Award Notice (2012 Version) (incorporated by reference to Exhibit 10.3 of the Registrants Quarterly Report on Form 10-Q for the period ended March 30, 2012 (File Nos. 001-14141 and 333-46983)).
10.29	Form of L-3 Communications Holdings, Inc. 2012 Cash Incentive Plan Performance Cash Award Notice (2013 Version) (incorporated by reference to Exhibit 10.9 of the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.30	L-3 Communications Holdings, Inc. Amended and Restated 2008 Directors Stock Incentive Plan (incorporated by reference to Exhibit 10.24 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).
10.31	Form of L-3 Communications Holdings, Inc. 2008 Directors Stock Incentive Plan Restricted Stock Unit Agreement (incorporated by reference to Exhibit 10.2 of the Registrants Quarterly Report on Form 10-Q for the period ended March 27, 2009 (File Nos. 001-14141 and 333-46983)).
10.32	Global Spin-Off Amendment to Equity Award Agreements dated as of July 18, 2012 (incorporated by reference to Exhibit 10.26 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).
10.33	Global Amendment to Non-Employee Director RSU Agreements dated as of April 30, 2013 (incorporated by reference to Exhibit 10.10 of the Registrants Quarterly Report on Form 10-Q for the period ended March 29, 2013 (File Nos. 001-14141 and 333-46983)).
10.34	L-3 Communications Holdings, Inc. Amended and Restated Change in Control Severance Plan (incorporated by reference to Exhibit 10.21 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2008 (File Nos. 001-14141 and 333-46983)).
10.35	L-3 Communications Corporation Amended and Restated Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.22 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2008 (File Nos. 001-14141 and 333-46983)).
10.36	Amendment 2012-2 to the L-3 Communications Corporation Amended and Restated Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.29 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2012 (File Nos. 001-14141 and 333-46983)).

10.37	L-3 Communications Corporation Deferred Compensation Plan I (incorporated by reference to Exhibit 10.15 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2007 (File Nos. 001-14141 and 333-46983)).

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Exhibit No.	Description of Exhibits
10.38	Amendment No. 1 to the L-3 Communications Corporation Deferred Compensation Plan I (incorporated by reference to Exhibit 10.16 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2007 (File Nos. 001-14141 and 333-46983)).
10.39	L-3 Communications Corporation Deferred Compensation Plan II (incorporated by reference to Exhibit 10.25 of the Registrants Annual Report on Form 10-K for the year ended December 31, 2008 (File Nos. 001-14141 and 333-46983)).
10.40	Employee Matters Agreement between L-3 Communications Corporation and Engility Corporation dated as of July 16, 2012 (incorporated by reference to Exhibit 10.1 to the Registrants Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File Nos. 001-14141 and 333-46983)).
10.41	Tax Matters Agreement between L-3 Communications Holdings, Inc. and Engility Holdings, Inc. dated as of July 16, 2012 (incorporated by reference to Exhibit 10.2 to the Registrants Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File Nos. 001-14141 and 333-46983)).
10.42	Transition Services Agreement between L-3 Communications Corporation and Engility Corporation dated as of July 16, 2012 (incorporated by reference to Exhibit 10.3 to the Registrants Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File Nos. 001-14141 and 333-46983)).
+10.43	Master Supply Agreement between L-3 Communications Corporation (as Seller) and Engility Corporation (as Buyer) dated as of July 16, 2012 (incorporated by reference to Exhibit 10.4 to the Registrants Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File Nos. 001-14141 and 333-46983)).
+10.44	Master Supply Agreement between L-3 Communications Corporation (as Buyer) and Engility Corporation (as Seller) dated as of July 16, 2012 (incorporated by reference to Exhibit 10.5 to the Registrants Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File Nos. 001-14141 and 333-46983)).
**11	L-3 Communications Holdings, Inc. Computation of Basic Earnings Per Share and Diluted Earnings Per Common Share.
*12	Ratio of Earnings to Fixed Charges.
*21	Subsidiaries of the Registrant.
*23	Consent of PricewaterhouseCoopers LLP.
*31.1	Certification of Chairman, President and Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
*31.2	Certification of Senior Vice President and Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended.
*32	Section 1350 Certification
***101.INS	XBRL Instance Document
***101.SCH	XBRL Taxonomy Extension Schema Document
***101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
***101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
***101.LAB	XBRL Taxonomy Extension Label Linkbase Document
***101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith.

** The information required in this exhibit is presented in Note 16 to the consolidated financial statements as of December 31, 2013 in accordance with the provisions of ASC 260, *Earnings Per Share*.

*** Filed electronically with this report.

Represents management contract, compensatory plan or arrangement in which directors and/or executive officers are entitled to participate.

\+ Pursuant to a request for confidential treatment, portions of these exhibits have been redacted from the publicly filed document and have been furnished separately to the Securities and Exchange Commission as required by Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized.

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

By: /S/ RALPH G. D AMBROSIO

Title: Senior Vice President and Chief Financial Officer

Date: February 25, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrants in the capacities indicated on February 25, 2014.

Signature	Title
/S/ MICHAEL T. STRIANESE Michael T. Strianese	Chairman, President and Chief Executive Officer (Principal Executive Officer) and Director
/S/ RALPH G. D AMBROSIO Ralph G. D Ambrosio	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/S/ DAN AZMON Dan Azmon	Vice President, Controller and Principal Accounting Officer
/S/ ROBERT B. MILLARD Robert B. Millard	Director
/S/ CLAUDE R. CANIZARES Claude R. Canizares	Director
/S/ THOMAS A. CORCORAN Thomas A. Corcoran	Director
/S/ LEWIS KRAMER Lewis Kramer	Director
/S/ LLOYD W. NEWTON Lloyd W. Newton	Director

/s/ H. Hugh Shelton H. Hugh Shelton	Director
/s/ Arthur L. Simon Arthur L. Simon	Director
/s/ Alan H. Washkowitz Alan H. Washkowitz	Director
/s/ John P. White John P. White	Director
/s/ Vincent Pagano, Jr. Vincent Pagano, Jr.	Director
/s/ Ann E. Dunwoody Ann E. Dunwoody	Director

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of L-3 Communications Holdings, Inc. and L-3 Communications Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index appearing on page F-1 present fairly, in all material respects, the financial position of L-3 Communications Holdings, Inc. and L-3 Communications Corporation and its subsidiaries (collectively, the Company) at December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
New York, New York
February 25, 2014

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	December 31, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 500	$ 349
Billed receivables, net of allowances of $26 in 2013 and $33 in 2012	1,015	968
Contracts in process	2,524	2,597
Inventories	359	358
Deferred income taxes	122	95
Other current assets	129	138
Total current assets	4,649	4,505
Property, plant and equipment, net	1,039	1,016
Goodwill	7,796	7,776
Identifiable intangible assets	285	314
Deferred debt issue costs	24	29
Other assets	216	151
Total assets	$ 14,009	$ 13,791
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable, trade	$ 541	$ 494
Accrued employment costs	543	551
Accrued expenses	455	469
Advance payments and billings in excess of costs incurred	570	620
Income taxes	31	21
Other current liabilities	383	392
Total current liabilities	2,523	2,547
Pension and postretirement benefits	727	1,360
Deferred income taxes	635	328
Other liabilities	396	384
Long-term debt	3,630	3,629
Total liabilities	7,911	8,248

Commitments and contingencies (see Note 19)		
Equity:		
L-3 shareholders equity:		
L-3 Communications Holdings, Inc. s common stock: $.01 par value; 300,000,000 shares authorized, 85,828,485 shares outstanding at December 31, 2013 and 90,433,743 shares outstanding at December 31, 2012 (L-3 Communications Corporation s common stock: $.01 par value, 100 shares authorized, issued and outstanding)	5,653	5,314
L-3 Communications Holdings, Inc. s treasury stock (at cost), 66,118,406 shares at December 31, 2013 and 57,418,645 shares at December 31, 2012	(5,288)	(4,488)
Retained earnings	5,768	5,191
Accumulated other comprehensive loss	(110)	(550)
Total L-3 shareholders equity	6,023	5,467
Noncontrolling interests	75	76
Total equity	6,098	5,543
Total liabilities and equity	$ 14,009	$ 13,791

See notes to consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Year Ended December 31, 2013	2012	2011
Net sales:			
Products	$ 7,192	$ 7,535	$ 7,552
Services	5,437	5,611	5,606
Total net sales	12,629	13,146	13,158
Cost of sales:			
Products	(6,409)	(6,724)	(6,673)
Services	(4,962)	(5,071)	(5,043)
Total cost of sales	(11,371)	(11,795)	(11,716)
Impairment charge			(43)
Operating income	1,258	1,351	1,399
Interest expense	(177)	(184)	(204)
Interest and other income, net	15	8	
Debt retirement charge		(13)	(35)
Income from continuing operations before income taxes	1,096	1,162	1,160
Provision for income taxes	(309)	(374)	(296)
Income from continuing operations	787	788	864
Income from discontinued operations, net of income tax		32	104
Net income	$ 787	$ 820	$ 968
Net income attributable to noncontrolling interests	(9)	(10)	(12)
Net income attributable to L-3	$ 778	$ 810	$ 956
Net income allocable to participating securities			(2)
Net income allocable to L-3 Holdings common shareholders	$ 778	$ 810	$ 954

Basic earnings per share allocable to L-3 Holdings common shareholders:						
Continuing operations	$	8.70	$	8.12	$	8.17
Discontinued operations				0.29		0.97
Basic earnings per share	$	8.70	$	8.41	$	9.14
Diluted earnings per share allocable to L-3 Holdings common shareholders:						
Continuing operations	$	8.54	$	8.01	$	8.08
Discontinued operations				0.29		0.95
Diluted earnings per share	$	8.54	$	8.30	$	9.03
Cash dividends paid per common share	$	2.20	$	2.00	$	1.80
L-3 Holdings weighted average common shares outstanding:						
Basic		89.4		96.3		104.4
Diluted		91.1		97.6		105.6

See notes to consolidated financial statements.

L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2013, 2012 and 2011

(in millions)

	Year Ended December 31,		
	2013	2012	2011
Net income	$ 787	$ 820	$ 968
Other comprehensive (loss) income:			
Foreign currency translation adjustments	(25)	34	(28)
Unrealized (losses) gains on hedging instruments[1]	(2)	3	(10)
Pension and postretirement benefit plans:			
Amortization of net loss and prior service cost previously recognized[2]	53	42	30
Net prior service (costs) credit arising during the period[3]	(9)	3	(1)
Net gain (loss) arising during the period[4]	423	(178)	(189)
Net change in pension and postretirement benefit plans	467	(133)	(160)
Total other comprehensive gain (loss)	440	(96)	(198)
Comprehensive income	1,227	724	770
Comprehensive income attributable to noncontrolling interests	(9)	(10)	(12)
Comprehensive income attributable to L-3	$ 1,218	$ 714	$ 758

(1) Net of income tax benefits of $3 million in 2013, income taxes of $2 million in 2012 and income tax benefits of $7 million in 2011

(2) Net of income taxes of $30 million in 2013, $26 million in 2012 and $18 million in 2011

(3) Net of income tax benefits of $5 million in 2013, income taxes of $2 million in 2012 and income tax benefits of $1 million in 2011

(4) Net of income taxes of $243 million in 2013 and income tax benefits of $105 million in 2012 and $87 million in 2011

See notes to consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY

For the Years Ended December 31, 2013, 2012 and 2011

(in millions, except per share data)

	L-3 Holdings Common Stock Shares Outstanding	L-3 Holdings Common Stock Par Value	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
Balance at December 31, 2010	108.6	$ 1	$ 4,800	$ (2,658)	$ 4,877	$ (256)	$ 91	$ 6,855
Net income					956		12	968
Other comprehensive loss						(198)		(198)
Distributions to noncontrolling interests							(11)	(11)
Cash dividends paid on common stock ($1.80 per share)					(188)			(188)
Shares issued:								
Employee savings plans	2.1		137					137
Exercise of stock options	0.4		18					18
Employee stock purchase plan	0.9		46					46
Stock-based compensation expense			64					64
Treasury stock purchased	(13.3)			(958)				(958)
Other	0.3		(2)		(4)		(3)	(9)
Balance at December 31, 2011	99.0	1	5,063	(3,616)	5,641	(454)	89	6,724
Net income					810		10	820
Other comprehensive loss						(96)		(96)
Distributions to noncontrolling interests							(10)	(10)
Cash dividends paid on common stock ($2.00 per share)					(192)			(192)
Shares issued:								
Employee savings plans	2.1		141					141
Exercise of stock options	0.4		19					19
	0.7		39					39

Employee stock purchase plan								
Stock-based compensation expense			60					60
Contribution received from the spin-off of Engility					335			335
Spin-off of Engility					(1,398)		(13)	(1,411)
Treasury stock purchased	(12.1)			(872)				(872)
Other	0.3		(9)		(5)			(14)
Balance at December 31, 2012	90.4	1	5,313	(4,488)	5,191	(550)	76	5,543
Net income					778		9	787
Other comprehensive gain						440		440
Distributions to noncontrolling interests							(10)	(10)
Cash dividends paid on common stock ($2.20 per share)					(197)			(197)
Shares issued:								
Employee savings plans	1.5		121					121
Exercise of stock options	1.8		128					128
Employee stock purchase plan	0.5		36					36
Stock-based compensation expense			59					59
Treasury stock purchased	(8.7)			(800)				(800)
Other	0.3		(5)		(4)			(9)
Balance at December 31, 2013	85.8	$ 1	$ 5,652	$ (5,288)	$ 5,768	$ (110)	$ 75	$ 6,098

See notes to consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

	Year Ended December 31, 2013	2012	2011
Operating activities:			
Net income	$ 787	$ 820	$ 968
Income from discontinued operations, net of tax		(32)	(104)
Income from continuing operations	787	788	864
Depreciation of property, plant and equipment	166	170	167
Amortization of intangibles and other assets	48	58	63
Deferred income tax provision	48	112	124
Stock-based employee compensation expense	59	59	57
Contributions to employee savings plans in L-3 Holdings common stock	114	125	113
Amortization of pension and postretirement benefit plans net loss and prior service cost	83	68	48
Amortization of bond discounts and deferred debt issue costs (included in interest expense)	6	7	13
Goodwill impairment charge			43
Equity in losses of unconsolidated subsidiaries		3	12
Other non-cash items	2	9	11
Changes in operating assets and liabilities, excluding amounts from acquisitions, divestitures, and discontinued operations:			
Billed receivables	(42)	147	(13)
Contracts in process	94	(126)	(121)
Inventories	2	(35)	(14)
Other assets	(81)	11	(6)
Accounts payable, trade	45	81	(35)
Accrued employment costs	(5)	(13)	(23)
Accrued expenses	(6)	(100)	67
Advance payments and billings in excess of costs incurred	(50)	36	(39)
Income taxes	39	(48)	(18)
Excess income tax benefits related to share-based payment arrangements	(4)	(3)	(2)
Other current liabilities	(4)	(52)	4
Pension and postretirement benefits	14	(64)	(83)
All other operating activities	(52)	(2)	(1)
Net cash from operating activities from continuing operations	1,263	1,231	1,231

Investing activities:			
Contribution received from the spin-off of Engility		335	
Business acquisitions, net of cash acquired	(62)	(348)	(20)
Proceeds from sale of a business	4	5	1
Capital expenditures	(209)	(210)	(187)
Dispositions of property, plant and equipment	12	5	6
Cash from equity investees		20	
Other investing activities	(6)	(7)	1
Net cash used in investing activities from continuing operations	(261)	(200)	(199)
Financing activities:			
Proceeds from sale of senior notes			1,143
Redemption of senior subordinated notes		(500)	(1,150)
Redemption of CODES			(11)
Borrowings under revolving credit facility	1,893	596	625
Repayment of borrowings under revolving credit facility	(1,893)	(596)	(625)
Common stock repurchased	(800)	(872)	(958)
Dividends paid on L-3 Holdings common stock	(199)	(195)	(188)
Proceeds from exercise of stock options	128	19	22
Proceeds from employee stock purchase plan	36	39	46
Debt issue costs		(6)	(11)
Excess income tax benefits related to share-based payment arrangements	4	3	2
Other financing activities	(18)	(15)	(14)
Net cash used in financing activities from continuing operations	(849)	(1,527)	(1,119)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(2)	7	(4)
Cash from (used in) discontinued operations:			
Operating activities		75	253
Investing activities			(4)
Financing activities		(1)	(1)
Cash from discontinued operations		74	248
Net (decrease) increase in cash and cash equivalents	151	(415)	157
Cash and cash equivalents, beginning of the year	349	764	607
Cash and cash equivalents, end of the year	$ 500	$ 349	$ 764

See notes to consolidated financial statements.

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L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

L-3 Communications Holdings, Inc. derives all of its operating income and cash flows from its wholly-owned subsidiary, L-3 Communications Corporation (L-3 Communications). L-3 Communications Holdings, Inc. (L-3 Holdings and, together with its subsidiaries, referred to herein as L-3 or the Company) is a prime contractor in Intelligence, Surveillance and Reconnaissance (ISR) systems, Command, Control, Communications (C^3), systems, platform and logistics solutions for aircrafts, maritime vessels and ground vehicles, and national security solutions. L-3 is also a leading provider of a broad range of electronic systems used on military and commercial platforms. The Company s customers include the United States (U.S.) Department of Defense (DoD) and its prime contractors, U.S. Government intelligence agencies, the U.S. Department of Homeland Security (DHS), U.S. Department of State (DoS), allied international governments, and domestic and international commercial customers.

The Company has the following four reportable segments: (1) C^3ISR, (2) Electronic Systems, (3) Platform and Logistics Solutions (P&LS) and (4) National Security Solutions (NSS). Financial information with respect to each of the Company s segments is included in Note 22. C^3ISR provides products and services for the global ISR market, C^3 systems, networked communication systems and secure communications products. The Company believes that these products and services are critical elements for a substantial number of major command, control and communication, intelligence gathering and space systems. These products and services are used to connect a variety of airborne, space, ground and sea-based communication systems and are used in the transmission, processing, recording, monitoring, and dissemination functions of these communication systems. Electronic Systems provides a broad range of products and services, including components, products, subsystems, systems, and related services to military and commercial customers in several niche markets across several business areas. These business areas include marine & power systems, microwave, sensor systems, simulation & training, aviation products, warrior systems, precision engagement, security & detection and space & propulsion. P&LS provides modernization, upgrades and sustainment, maintenance and logistics support solutions for military and various government aircraft and other platforms. The Company sells these services primarily to the DoD, the Canadian Department of National Defence and other allied international governments. NSS provides a full range of cyber security, intelligence, enterprise information technology (IT) and security solutions services to the DoD, U.S. Government intelligence agencies, federal civilian agencies and allied international governments.

2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying financial statements comprise the consolidated financial statements of L-3 Holdings and L-3 Communications. L-3 Holdings only asset is its investment in the common stock of L-3 Communications, its wholly-owned subsidiary, and its only obligations are: (1) the 3% Convertible Contingent Debt Securities (CODES) due 2035, which were issued by L-3 Holdings on July 29, 2005, (2) its guarantee of borrowings under the Amended and Restated Revolving Credit Facility of L-3 Communications and (3) its guarantee of other contractual obligations of L-3 Communications and its subsidiaries. L-3 Holdings obligations relating to the CODES have been jointly, severally, fully and unconditionally guaranteed by L-3 Communications and certain of its wholly-owned domestic subsidiaries. Accordingly, such debt has been reflected as debt of L-3 Communications in its consolidated financial statements in accordance with the accounting standards for pushdown accounting. All issuances of and conversions into L-3 Holdings equity securities, including grants of stock options, restricted stock, restricted stock units and performance units by L-3 Holdings to employees and directors of L-3 Communications and its subsidiaries, have been reflected in the consolidated financial statements of L-3 Communications. As a result, the consolidated financial positions, results of operations and cash flows of L-3 Holdings and L-3 Communications are substantially the same. See Note 25 for additional information regarding the audited financial information of L-3 Communications and its subsidiaries.

L-3 COMMUNICATIONS HOLDINGS, INC.

AND L-3 COMMUNICATIONS CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and costs of sales during the reporting period. The most significant of these estimates and assumptions relate to contract revenue, profit and loss recognition, fair values of assets acquired and liabilities assumed in business combinations, market values for inventories reported at lower of cost or market, pension and post-retirement benefit obligations, stock-based employee compensation expense, income taxes, including the valuations of deferred tax assets, litigation reserves and environmental obligations, accrued product warranty costs, and the recoverability, useful lives and valuation of recorded amounts of long-lived assets, identifiable intangible assets and goodwill. Changes in estimates are reflected in the periods during which they become known. Actual amounts will differ from these estimates and could differ materially.

The audited condensed consolidated balance sheet as of December 31, 2012 has been revised for the final purchase price allocation of the Link Simulation & Training U.K. Limited (Link U.K.) business acquisition. Link U.K is the commercial aircraft simulation business acquired from Thales Group effective August 6, 2012. During 2013, the Company completed the purchase price allocation, which was based on the final appraisals and valuations of the acquired assets and liabilities and estimated final closing date net working capital. The L-3 audited condensed consolidated balance sheet as of December 31, 2012 has been adjusted in accordance with the accounting standards for business combinations. See Note 4 for additional information regarding the final purchase price allocation for Link U.K. and resulting adjustments.

Certain other reclassifications have been made to conform prior-year amounts to the current-year presentation.

Principles of Consolidation: The consolidated financial statements of the Company include all wholly-owned and majority-owned subsidiaries. All significant intercompany transactions are eliminated in consolidation. Investments in equity securities, joint ventures and limited liability corporations over which the Company has significant influence but does not have voting control are accounted for using the equity method. Investments over which the Company does not have significant influence are accounted for using the cost method.