

L 3 COMMUNICATIONS HOLDINGS INC  
Form 10-Q  
May 01, 2014

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended March 28, 2014**

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

**For the transition period from                      to**

**Commission file numbers 001-14141 and 333-46983**

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

**L-3 COMMUNICATIONS CORPORATION**

**(Exact names of registrants as specified in their charters)**

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

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

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

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

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

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

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

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

There were 86,232,242 shares of L-3 Communications Holdings, Inc. common stock with a par value of \$0.01 outstanding as of the close of business on April 23, 2014.



---

**L-3 COMMUNICATIONS HOLDINGS, INC.**  
**AND L-3 COMMUNICATIONS CORPORATION**  
**INDEX TO QUARTERLY REPORT ON FORM 10-Q**  
**For the quarterly period ended March 28, 2014**

	<b>Page No.</b>
<b>PART I FINANCIAL INFORMATION</b>	
ITEM 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Balance Sheets as of March 28, 2014 (Unaudited) and December 31, 2013</u>	1
<u>Unaudited Condensed Consolidated Statements of Operations for the Quarterly periods ended March 28, 2014 and March 29, 2013</u>	2
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income for the Quarterly periods ended March 28, 2014 and March 29, 2013</u>	3
<u>Unaudited Condensed Consolidated Statements of Equity for the Quarterly periods ended March 28, 2014 and March 29, 2013</u>	4
<u>Unaudited Condensed Consolidated Statements of Cash Flows for the Quarterly periods ended March 28, 2014 and March 29, 2013</u>	5
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	6
ITEM 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	32
ITEM 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	46
ITEM 4. <u>Controls and Procedures</u>	46
<b>PART II OTHER INFORMATION</b>	
ITEM 1. <u>Legal Proceedings</u>	47
ITEM 1A. <u>Risk Factors</u>	47
ITEM 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	48
ITEM 6. <u>Exhibits</u>	48
<u>Signature</u>	49

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

	<b>(Unaudited)</b> <b>March 28,</b> <b>2014</b>	<b>December 31,</b> <b>2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 227	\$ 500
Billed receivables, net of allowances of \$24 in 2014 and \$26 in 2013	1,093	1,015
Contracts in process	2,763	2,524
Inventories	375	359
Deferred income taxes	118	122
Other current assets	126	129
<b>Total current assets</b>	<b>4,702</b>	<b>4,649</b>
Property, plant and equipment, net	1,028	1,039
Goodwill	7,821	7,796
Identifiable intangible assets	283	285
Deferred debt issue costs	23	24
Other assets	208	216
<b>Total assets</b>	<b>\$ 14,065</b>	<b>\$ 14,009</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 590	\$ 541
Accrued employment costs	538	543
Accrued expenses	403	455
Advance payments and billings in excess of costs incurred	523	570
Income taxes	22	31
Other current liabilities	380	383
<b>Total current liabilities</b>	<b>2,456</b>	<b>2,523</b>
Pension and postretirement benefits	729	727
Deferred income taxes	679	635
Other liabilities	382	396
Long-term debt	3,631	3,630

Total liabilities	7,877	7,911
Commitments and contingencies (see Note 17)		
Equity:		
L-3 shareholders' equity:		
L-3 Communications Holdings, Inc.'s common stock: \$.01 par value; 300,000,000 shares authorized, 86,423,244 shares outstanding at March 28, 2014 and 85,828,485 shares outstanding at December 31, 2013 (L-3 Communications Corporation's common stock: \$.01 par value, 100 shares authorized, issued and outstanding)	5,767	5,653
L-3 Communications Holdings, Inc.'s treasury stock (at cost), 67,335,382 shares at March 28, 2014 and 66,118,406 shares at December 31, 2013	(5,421)	(5,288)
Retained earnings	5,895	5,768
Accumulated other comprehensive loss	(128)	(110)
Total L-3 shareholders' equity	6,113	6,023
Noncontrolling interests	75	75
Total equity	6,188	6,098
Total liabilities and equity	\$ 14,065	\$ 14,009

See notes to unaudited condensed consolidated financial statements

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

(in millions, except per share data)

	<b>First Quarter Ended</b>	
	<b>March 28, 2014</b>	<b>March 29, 2013</b>
Net sales:		
Products	\$ 1,661	\$ 1,813
Services	1,310	1,372
Total net sales	2,971	3,185
Cost of sales:		
Products	(1,467)	(1,620)
Services	(1,197)	(1,252)
Total cost of sales	(2,664)	(2,872)
Operating income	307	313
Interest expense	(43)	(43)
Interest and other income, net	3	3
Income before income taxes	267	273
Provision for income taxes	(85)	(79)
Net income	\$ 182	\$ 194
Net income attributable to noncontrolling interests	(2)	(1)
Net income attributable to L-3	\$ 180	\$ 193
Earnings per share attributable to L-3 Holdings common shareholders:		
Basic	\$ 2.09	\$ 2.14
Diluted	\$ 2.01	\$ 2.11
Cash dividends paid per common share	\$ 0.60	\$ 0.55
L-3 Holdings weighted average common shares outstanding:		
Basic	86.1	90.3
Diluted	89.4	91.5

See notes to unaudited condensed consolidated financial statements



**L-3 COMMUNICATIONS HOLDINGS, INC.****AND L-3 COMMUNICATIONS CORPORATION****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(in millions)**

	<b>First Quarter Ended</b>	
	<b>March 28, 2014</b>	<b>March 29, 2013</b>
Net income	\$ 182	\$ 194
Other comprehensive income:		
Foreign currency translation adjustments	(16)	(34)
Unrealized losses on hedging instruments <sup>(1)</sup>	(5)	(3)
Pension and postretirement benefit plans:		
Amortization of net loss and prior service cost previously recognized <sup>(2)</sup>	3	13
Total other comprehensive loss	(18)	(24)
Comprehensive income	164	170
Comprehensive income attributable to noncontrolling interests	(2)	(1)
Comprehensive income attributable to L-3	\$ 162	\$ 169

<sup>(1)</sup> Amounts are net of income tax benefits of \$2 million for both of the quarterly periods ended March 28, 2014 and March 29, 2013.

<sup>(2)</sup> Amounts are net of income taxes of \$1 million and \$9 million for the quarterly periods ended March 28, 2014 and March 29, 2013, respectively.

See notes to unaudited condensed consolidated financial statements

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

(in millions, except per share data)

	L-3 Holdings Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Noncontrolling Interests	Total Equity
	Shares Outstanding	Par Value						
<b>For the Quarter Ended March 28, 2014:</b>								
Balance at December 31, 2013	85.8	\$ 1	\$ 5,652	\$ (5,288)	\$ 5,768	\$ (110)	\$ 75	\$ 6,098
Net income					180		2	182
Other comprehensive income						(18)		(18)
Distributions to noncontrolling interests							(2)	(2)
Cash dividends paid on common stock (\$0.60 per share)					(52)			(52)
Shares issued:								
Employee savings plans	0.4		44					44
Exercise of stock options	0.9		81					81
Employee stock purchase plan	0.2							
Stock-based compensation expense			15					15
Treasury stock purchased	(1.2)			(133)				(133)
Other	0.3		(26)		(1)			(27)
Balance at March 28, 2014	86.4	\$ 1	\$ 5,766	\$ (5,421)	\$ 5,895	\$ (128)	\$ 75	\$ 6,188
<b>For the Quarter Ended March 29, 2013:</b>								
Balance at December 31, 2012	90.4	\$ 1	\$ 5,313	\$ (4,488)	\$ 5,191	\$ (550)	\$ 76	\$ 5,543
Net income					193		1	194
Other comprehensive income						(24)		(24)
Distributions to noncontrolling interests							(2)	(2)
					(50)			(50)

Cash dividends paid on  
common stock (\$0.55 per  
share)

Shares issued:

Employee savings plans	0.5	37	37
Exercise of stock options	0.3	16	16
Employee stock purchase plan	0.3		
Stock-based compensation expense		14	14
Treasury stock purchased	(1.6)	(122)	