

L 3 COMMUNICATIONS HOLDINGS INC  
Form 10-Q  
November 09, 2006

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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  
(State or other jurisdiction of  
incorporation or organization)  
600 Third Avenue, New York NY  
(Address of principal executive offices)

13-3937434 and 13-3937436  
(I.R.S. Employer Identification Nos.)

10016  
(Zip Code)

(212) 697-1111

(Telephone number)

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 are large accelerated filers, accelerated filers, or non-accelerated filers. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer                  Accelerated filer                  Non-accelerated filer

Indicate by check mark whether the registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act).

Yes      No

There were 124,935,289 shares of L-3 Communications Holdings, Inc. common stock with a par value of \$0.01 outstanding as of the close of business on October 27, 2006.

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

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For the quarterly period ended September 30, 2006

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PART I — FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

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

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share data)

	September 30, 2006	December 31, 2005
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 247.7	\$ 393.9
Contracts in process	3,321.9	2,904.4
Deferred income taxes	314.0	230.6
Other current assets	93.2	114.6
Total current assets	3,976.8	3,643.5
Property, plant and equipment, net	717.3	657.6
Goodwill	7,702.2	6,899.8
Identifiable intangible assets	478.1	412.8
Deferred debt issue costs	69.2	76.6
Other assets	178.1	218.8
Total assets	\$ 13,121.7	\$ 11,909.1
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable, trade	\$ 481.6	\$ 476.1
Accrued employment costs	531.6	467.7
Accrued expenses	255.0	172.0
Billings in excess of costs and estimated profits	224.9	214.0
Customer advances	194.1	97.2
Income taxes	114.5	69.2
Other current liabilities	504.5	358.1
Total current liabilities	2,306.2	1,854.3
Pension and postretirement benefits	495.0	435.6
Deferred income taxes	279.6	119.1
Other liabilities	260.9	294.7
Long-term debt	4,634.6	4,633.5
Total liabilities	7,976.3	7,337.2
Commitments and contingencies (see Note 13)		
Minority interests	83.8	81.2
Shareholders' equity:		
L-3 Holdings' common stock; \$.01 par value; authorized 300,000,000 shares, issued and outstanding 124,789,081 shares in 2006 and 120,372,394 shares in 2005 (L-3 Communications' common stock; \$.01 par value, 100 shares authorized, issued and outstanding)	3,312.1	3,040.8
Retained earnings	1,828.5	1,545.0
Unearned compensation	—	(17.9)
Accumulated other comprehensive loss	(79.0)	(77.2)
Total shareholders' equity	5,061.6	4,490.7
Total liabilities and shareholders' equity	\$ 13,121.7	\$ 11,909.1

See notes to unaudited condensed consolidated financial statements.

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AND L-3 COMMUNICATIONS CORPORATION

## UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Three Months Ended September 30,	
	2006	2005
Net sales:		
Products	\$ 1,431.3	\$ 1,159.6
Services	1,673.2	1,346.8
Total net sales	3,104.5	2,506.4
Cost of sales:		
Products	1,263.8	1,019.7
Services	1,507.4	1,220.2
Total cost of sales	2,771.2	2,239.9
Operating income	333.3	266.5
Interest and other (income) expense, net	(6.4)	(0.9)
Interest expense	76.8	59.9
Minority interests in net income of consolidated subsidiaries	3.5	2.6
Income before income taxes	259.4	204.9
Provision for income taxes	95.6	69.6
Net income	\$ 163.8	\$ 135.3
L-3 Holdings' earnings per common share:		
Basic	\$ 1.32	\$ 1.13
Diluted	\$ 1.31	\$ 1.11
L-3 Holdings' weighted average common shares outstanding:		
Basic	123.8	119.7
Diluted	125.3	122.1

See notes to unaudited condensed consolidated financial statements.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions, except per share data)

	Nine Months Ended September 30,	
	2006	2005
Net sales:		
Products	\$ 4,194.1	\$ 3,302.4
Services	4,897.6	3,242.1
Total net sales	9,091.7	6,544.5
Cost of sales:		
Products (excludes stock-based charge of \$23.8)	3,703.8	2,915.7
Services (excludes stock-based charge of \$15.4)	4,449.6	2,938.2
Total cost of sales	8,153.4	5,853.9
Litigation charge	129.0	—
Stock-based charge	39.2	—
Operating income	770.1	690.6
Interest and other (income) expense, net	(14.4)	(6.4)
Interest expense	221.6	136.5
Minority interests in net income of consolidated subsidiaries	8.4	7.9
Income before income taxes	554.5	552.6
Provision for income taxes	202.0	195.5
Net income	\$ 352.5	\$ 357.1
L-3 Holdings' earnings per common share:		
Basic	\$ 2.88	\$ 3.02
Diluted	\$ 2.84	\$ 2.95
L-3 Holdings' weighted average common shares outstanding:		
Basic	122.4	118.3
Diluted	124.3	120.9

See notes to unaudited condensed consolidated financial statements.

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

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

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	Nine Months Ended September 30,	
	2006	2005
Operating activities:		
Net income	\$ 352.5	\$ 357.1
Depreciation	98.1	81.0
Amortization of intangibles and other assets	38.0	24.7
Deferred income tax provision	68.2	87.8
Stock-based employee compensation expense	34.2	3.3
Contributions to employee savings plans in L-3 Holdings' common stock	85.0	46.5
Non-cash portion of stock-based charge	31.1	—
Minority interests in net income of consolidated subsidiaries	8.4	7.9
Amortization of deferred debt issue costs (included in interest expense)	7.7	5.2
Other non-cash items	(5.4)	3.5
Subtotal	717.8	617.0
Changes in operating assets and liabilities, excluding acquired amounts:		
Contracts in process	(216.9)	(158.7)
Other current assets	16.9	(3.7)
Other assets	21.1	(26.6)
Accounts payable, trade	(34.0)	(24.8)
Accrued employment costs	25.2	15.9
Accrued expenses	38.2	5.4
Billings in excess of costs and estimated profits	6.0	4.1
Customer advances	34.1	30.5
Income taxes	97.5	74.4
Excess income tax benefits related to share-based payment arrangements	(54.7)	—
Other current liabilities	112.0	27.4
Pension and postretirement benefits	9.5	14.8
Other liabilities	(40.7)	6.4
All other operating activities	3.2	(2.5)
Subtotal	17.4	(37.4)
Net cash from operating activities	735.2	579.6
Investing activities:		
Business acquisitions, net of cash acquired	(873.5)	(3,380.6)
Capital expenditures	(103.0)	(71.2)
Dispositions of property, plant and equipment	1.8	2.2
Other investing activities	4.1	3.7
Net cash used in investing activities	(970.6)	(3,445.9)
Financing activities:		
Borrowings under revolving credit facility	835.0	