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L 3 COMMUNICATIONS HOLDINGS INC

Form 8-K

December 19, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of report (Date of earliest event reported) November 9, 2001

L-3 Communications Holdings, Inc.
L-3 Communications Corporation

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation)

001-14141	13-3937434
333-46983	13-3937436

(Commission File Number) (IRS Employer Identification No.)

600 Third Avenue, New York, New York	10016
--------------------------------------	-------

(Address of Principal Executive Offices) (Zip Code)

(212) 697-1111

(Registrant's Telephone Number, Including Area Code)

Item 5. Other Events

On November 9, 2001, the Company designated certain of its domestic subsidiaries as additional guarantors of the debt of L-3 Communications Corporation ("L-3 Communications"), including the Senior Subordinated Notes and borrowings under amounts drawn against the senior credit facilities, all of which are guaranteed, on a joint and several, full and unconditional basis, by certain of the Company's wholly owned domestic subsidiaries.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

A. Financial Statements

EER Systems, Inc.

o Report of Independent Auditors.....

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- o Financial Statements
 - Consolidated Balance Sheet as of December 31, 2000
 - Consolidated Statement of Operations, Retained Earnings and other Comprehensive Income for the year ended December 31, 2000
 - Consolidated Statement of Cash Flows for the year ended December 31, 2000
 - Notes to Consolidated Financial Statements
 - Condensed Consolidated Balance Sheet as of March 31, 2001.....
 - Condensed Consolidated Statements of Operations, Retained Earnings and Other Comprehensive Income for the Three Months Ended March 31, 2001 and 2000
 - Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2001 and 2000.....
 - Notes to Unaudited Condensed Consolidated Financial Statements.....

L-3 Communications Holdings, Inc. and L-3 Communications Corporation

- o Unaudited Financial Information of L-3 Communications and its Subsidiaries.....
 - Condensed Combining Balance Sheets
 - Condensed Combining Statements of Operations
 - Condensed Combining Statements of Cash Flows

C. Exhibits

23. Consent of PricewaterhouseCoopers LLP

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

L-3 COMMUNICATIONS HOLDINGS, INC.

By: /s/ Robert V. LaPenta

President and Chief Financial Officer

L-3 COMMUNICATIONS CORPORATION

Date December 19, 2001

By: /s/ Robert V. LaPenta

President and Chief Financial Officer

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
EER Systems, Inc.

We have audited the accompanying consolidated balance sheet of EER Systems Inc.

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(the "Company") as of December 31, 2000, and related statements of operations, retained earnings and other comprehensive income and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2000, and its consolidated results of operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

1751 Pinnacle Drive
McLean, Virginia
March 9, 2001

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EER SYSTEMS, INC.
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

ASSETS	DECEMBER 31, 2000

Current assets:	
Cash and cash equivalents	\$ 597
Marketable equity securities	219
Accounts receivable	34,890
Other accounts receivable	328
Prepaid expenses	323

Total current assets	36,357

Property and equipment, net	2,146
Investment in unimproved land	764
Goodwill, net	11,236
Other intangible assets, net	1,265
Other assets	115

Total assets	\$51,883
	=====

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LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:	
Line of credit	\$ 7,197
Accounts payable and accrued expenses	4,966
Accrued salaries	1,648
Unearned revenue	3,048

Total current liabilities	16,859
Other long-term liabilities	28

Total liabilities	16,887

Stockholders' equity:	
Common stock, par value \$.01; 25,000 shares authorized; 15,750 shares issued and outstanding	--
Capital in excess of par	12,071
Accumulated other comprehensive income	28
Retained earnings	22,897

Total stockholders' equity	34,996

Total liabilities and stockholders' equity	\$51,883
	=====

See notes to consolidated financial statements.

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EER SYSTEMS, INC.
CONSOLIDATED STATEMENT OF OPERATIONS, RETAINED EARNINGS, AND
OTHER COMPREHENSIVE INCOME
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 2000

Contract revenue	\$146,164

Operating costs:	
Contract salaries	41,769
Subcontractors and consultants	29,040
Other direct costs and materials	25,670
Overhead, general and administrative expenses	36,762

Total operating costs	133,241

Operating income	12,923

Other income (expense):	
Gain on sale of assets	178
Loss on sale of marketable securities	(2,506)
Loss on investment in affiliated company	(886)
Interest expense	(1,201)
Other, net	58

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Total other expense	(4,357)	-----
Net income	8,566	
Retained earnings, beginning of year	19,283	
Stockholders distributions	(4,952)	-----
Retained earnings, end of year	\$22,897	=====
Other comprehensive income:		
Net income	\$ 8,566	
Unrealized gain on marketable equity securities	(1)	-----
Total other comprehensive income	\$ 8,565	=====

See notes to consolidated financial statements.

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EER SYSTEMS, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31, 2000

Cash flows from operating activities:	
Net income	\$ 8,566
Adjustments to reconcile change in net income to net cash provided by operating activities:	
Depreciation and amortization	3,258
Loss on sale of marketable securities	2,506
Loss on investment in affiliated company	886
Gain on sale of assets	(178)
Changes in operating assets and liabilities:	
Accounts receivable	7,686
Other accounts receivable	130
Prepaid expenses	457
Other assets	(26)
Accounts payable and accrued expenses	(586)
Accrued salaries	(314)
Unearned revenue	3,048
Other liabilities	(28)
Net cash provided by operating activities	25,405

Cash flows from investing activities:	
Proceeds from note receivable from related party	1,137
Additions of equipment	(800)
Proceeds from sale of assets	735
Purchases of marketable securities	(527)
Advances to affiliated company	(696)
Proceeds from sales of marketable securities	392
Net cash provided by investing activities	241

Cash flows from financing activities:	

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Net decrease in borrowings on line of credit	(10,427)
Payments on debt	(10,000)
Distributions to stockholders	(4,952)

Net cash used by financing activities	(25,379)

Increase in cash	267
Cash and cash equivalents, beginning of year	330

Cash and cash equivalents, end of year	\$ 597
	=====
Supplementary disclosures of cash flow:	
Information and non-cash activities:	
Interest paid during the year	\$ 1,201
	=====

See notes to consolidated financial statements.

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EER SYSTEMS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

EER Systems, Inc. ("EER" or the "Company") was incorporated December 16, 1985, under the laws of the Commonwealth of Virginia. The Company derives the major portion of its revenue from consulting services rendered to the Federal Government. For 2000, these contracts were time and material and cost-type contracts (85%) and fixed-price contracts (15%).

On January 1, 2000, the operations of Technautics, Inc. ("Technautics"), a wholly-owned subsidiary, were merged into EER Systems, Inc. Technautics was subsequently dissolved.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the majority owned and controlled subsidiary Iatros, Inc. ("Iatros"). The consolidated financial statements include 100% of losses incurred by Iatros as the portion of such losses attributed to the minority interest exceeds their investment basis.

All significant intercompany accounts and transactions have been eliminated.

Revenue Recognition

The principal source of revenue of the Company is derived from contracts with various agencies of the Federal government. Revenue on time-and-materials contracts is recognized based on hours delivered at the contracted billable hourly rate plus the cost of materials incurred. Revenue on firm fixed-price contracts is recognized using the percentage-of-completion method based on costs incurred in relation to total estimated costs. Revenue on cost-type contracts is recognized to the extent of costs incurred plus a proportionate amount of fee earned. The fees under certain government contracts may be increased or decreased in accordance with cost or performance incentive

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provisions that measure actual performance against established targets or other criteria. Such incentive fee awards or penalties are included in revenues at the time the amounts can be reasonably determined. Provision for anticipated contract losses are recognized as soon as they become known and estimable.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. As of December 31, 2000, cash equivalents included money market funds of \$46,000.

Concentration of Credit Risk

At times during the year, the Company maintains cash balances at financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits. In addition, the Company had cash balances of \$46,000 held in non-FDIC insured money market funds at local institutions as of December 31, 2000. Management believes the risk in these situations to be minimal.

Marketable Securities

The Company determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation as of each balance sheet date. The Company's marketable securities are categorized as "available for sale" and accordingly, are carried at fair value, with unrealized gains and losses, reported as accumulated other comprehensive income within the stockholders' equity section of the balance sheet.

Marketable securities consist of equity securities that have a readily determinable fair market value. For the year ended December 31, 2000, the Company sold the majority of its marketable

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EER SYSTEMS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

securities for \$392,000 resulting in gross realized losses of \$2,506,000. The cost basis of the securities sold was based on specific identification. As of December 31, 2000, unrealized gains on marketable securities were \$28,000.

Long-lived Assets

The Company evaluates the recoverability of its long-lived assets in accordance with the Statement of Financial Accounting Standards No. 121, Accounting for the Impairment of Long-lived Assets and Long-lived Assets to be Disposed of ("SFAS 121"). SFAS 121 requires recognition of impairment of long-lived assets in the event net book value of such assets exceeds the future undiscounted net cash flows attributable to such assets. Impairment, if any, is recognized in the period of identification to the extent the carrying amount of an asset exceeds discounted net cash flows attributable to such assets. Based on its most recent analysis, the Company believes that there was no impairment of its long-lived assets as of December 31, 2000.

Property and Equipment

Property and equipment are recorded at cost less accumulated depreciation.

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Depreciation is computed on property and equipment using the straight-line method over the estimated useful lives of the assets, generally three to seven years.

Maintenance and repairs are charged to expense as incurred; major renewals and improvements are capitalized. When items of property and equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in earnings.

Goodwill

Goodwill represents the excess of the purchase price over fair value of net assets acquired. Goodwill is amortized on a straight-line basis over a seven-year period. Accumulated amortization was \$3,480,000 as of December 31, 2000. Total amortization expense for goodwill for the year ended December 31, 2000 was \$2,109,000.

Licenses

During September 1999, the Company purchased four Local-to-Multipoint Distribution licenses to operate a Radio Transmitting Station from the Federal Communications Commission for \$1,758,000. One of the four licenses was sold in September 2000 for \$400,000 resulting in a gain of \$147,000.

Accumulated amortization was \$209,000 as of December 31, 2000. Total amortization expense for licenses for the year ended December 31, 2000 was \$169,000.

Investment in Unimproved Land

Investment in unimproved land is carried at cost. At a time when a permanent decline in market value occurs, the value of the investment is written down by the amount of the estimated permanent impairment, and the loss is included in earnings.

Deferred Revenue and Contract Advance Payments

The Company invoices its customers for some of its contracts based on provisional indirect cost rates. These invoiced amounts are adjusted when the actual rates have been determined by audit. Other contracts are billed periodically based on terms established by the contract, independent of the percent the contract is completed, which in some situations, result in funds being advanced to the Company in excess of the amounts earned. As of December 31, 2000, the Company had received \$3,048,000 of funds in excess of revenues to be earned and recognized on various contracts.

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EER SYSTEMS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

Income Taxes

Effective July 1, 1991, the Company was granted a Subchapter S status under Federal Income Tax Regulations. Instead of paying corporate income taxes, the stockholders of an "S" corporation are taxed individually on their proportionate share of the Company's taxable income.

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Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2000 consists of the following:

	(IN THOUSANDS)
Billed	\$22,651
Unbilled	12,239

	\$34,890
	=====

Unbilled accounts receivable comprise recognized recoverable costs and accrued profits on contracts for which billings had not been presented to clients as of the balance sheet date.

Management anticipates the collection of these amounts within 180 days of the balance sheet date. Payments to the Company on contracts with agencies and departments of the U.S. government are subject to adjustment upon audit by the U.S. government. Years ended after December 31, 1998 are subject to U.S. Government audit. Management believes the effect of audit adjustments, if any, on periods not yet audited, will not have a material effect on the financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of December 31, 2000:

	(IN THOUSANDS)
Equipment	\$ 4,727
Furniture & fixtures	446
Automobiles	172
Leasehold improvements	210

	5,555
Accumulated depreciation and amortization	(3,409)

Property and equipment, net	\$ 2,146
	=====

Depreciation and amortization of property and equipment was \$980,000 for the year ended December 31, 2000.

4. OPERATING LEASES

The Company has entered into lease agreements for office space in various locations throughout the country. The operating leases have various expiration dates through 2007. During the year ended December 31, 2000, the Company incurred rent expense of \$2,615,000.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- CONTINUED

Future minimum lease payments for noncancellable operating leases are as follows:

YEAR	(IN THOUSANDS)
----	-----
2001	\$ 2,603
2002	2,449
2003	2,288
2004	1,860
2005	1,529
Thereafter	6,249

Total minimum lease payments	\$16,978
	=====

5. FINANCING

Revolving line of credit:

As of December 31, 2000, the Company has a line of credit with commercial lenders, which provides borrowings up to \$20,000,000, of which \$7,197,000 was outstanding. This line of credit expires May 30, 2004. Advances bear interest at either the Base Rate or LIBOR plus the Applicable Margin in effect. The Base Rate is defined as the higher of the Federal Funds Rate plus .50% or the lending banks' prime rate. Applicable Margin is defined as the finance charged based on interest rates relative to outstanding borrowings and accrued expenses and accounts payable. The interest rate at December 31, 2000 was 7.829%. The line of credit is collateralized by the accounts receivable and property and equipment of the Company. The revolving line of credit is classified as short-term as of December 31, 2000 as a result of management's intent to repay the borrowed amounts within the subsequent year.

Acquisition notes

As of December 31, 1999, the Company had two notes payable to commercial lenders related to 1999 acquisitions totaling \$10,000,000. The principal was due in equal monthly installments over 42 months beginning on January 1, 2000, plus interest at either the Base Rate or LIBOR plus the Applicable Margin in effect. These notes were paid off as of December 31, 2000.

6. PENSION PLAN

The Company has a contributory 401(k) pension plan covering all qualified employees. The Company matches one-half of an employee's contribution up to a maximum of three percent of an employee's annual salary. The Company's contribution for the year ended December 31, 2000 was \$1,150,000.

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EER SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)
(UNAUDITED)

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ASSETS		MARCH 31, 2001
Current assets:		
Cash and cash equivalents	\$	4,025
Marketable equity securities		219
Accounts receivable		34,096
Other accounts receivable		201
Prepaid expenses		861

Total current assets		39,402

Property and equipment, net		2,006
Investment in unimproved land		764
Goodwill, net		10,708
Other intangible assets, net		-
Other assets		110

Total assets	\$	52,990
		=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit	\$	-
Accounts payable and accrued expenses		9,562
Accrued salaries		4,383
Unearned revenue		2,726

Total current liabilities		16,671
Other long-term liabilities		27

Total liabilities		16,698

Stockholders' equity:		
Common stock, par value \$.01; 25,000 shares authorized; 15,750 shares issued and outstanding		-
Capital in excess of par		12,071
Accumulated other comprehensive income		28
Retained earnings		24,193

Total stockholders' equity		36,292

Total liabilities and stockholders' equity	\$	52,990
		=====

See notes to unaudited condensed consolidated financial statements

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EER SYSTEMS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS, RETAINED
 EARNINGS, AND OTHER COMPREHENSIVE INCOME
 (IN THOUSANDS)
 (UNAUDITED)

	Three months ended March 31,	
	2001	2000
Contract revenue	\$ 37,018	\$ 32,895
Operating costs:		
Contract salaries	10,936	10,314
Subcontractors and consultants	6,367	5,247
Other direct costs and materials	6,181	5,135
Overhead, general and administrative expenses	9,434	8,978
Total operating costs	32,918	29,674
Operating income	4,100	3,221
Other (income) expense:		
Loss on sale of marketable securities	-	911
Interest (income) expense	(70)	483
Other, net	(6)	(16)
Total other (income) expense	(76)	1,378
Net income	4,176	1,843
Retained earnings, beginning of year	22,897	19,283
Stockholder distributions	(2,880)	-
Retained earnings, end of year	\$ 24,193	\$ 21,126
Other comprehensive income:		
Net income	\$ 4,176	\$ 1,843
Unrealized gain on marketable equity securities	-	-
Total other comprehensive income	\$ 4,176	\$ 1,843

See notes to unaudited condensed consolidated financial statements

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EER SYSTEMS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (IN THOUSANDS)

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(UNAUDITED)

	Three months ended March	
	2001	2000

Cash flows from operating activities:		
Net income	\$ 4,176	\$ 1
Adjustments to reconcile change in net income to net cash provided by operating activities:		
Depreciation and amortization	864	
Changes in operating assets and liabilities:		
Accounts receivable	793	(4,
Other accounts receivable	81	(
Prepaid expenses	(538)	(
Accounts payable and accrued expenses	4,672	6
Accrued salaries	2,659	2
Unearned revenue	(322)	
Other liabilities	-	

Net cash provided by operating activities	12,385	6

Cash flows from investing activities:		
Collection (issuance) of notes receivable	50	(
Additions of equipment	(171)	(
Proceeds from sale of assets	1,241	1

Net cash provided by investing activities	1,120	

Cash flows from financing activities:		
Net decrease in borrowings on line of credit	(7,197)	(6,
Payments on debt	-	(
Distributions to stockholders	(2,880)	

Net cash used by financing activities	(10,077)	(7,

Increase (decrease) in cash	3,428	(
Cash and cash equivalents, beginning of year	597	

Cash and cash equivalents, end of year	\$ 4,025	\$
	=====	

See notes to unaudited condensed consolidated financial statements

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EER SYSTEMS, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

EER Systems, Inc. ("EER" or the "Company") was incorporated December 16, 1985, under the laws of the Commonwealth of Virginia. The Company derives the major portion of its revenue from consulting services rendered to the Federal Government.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and the majority owned and controlled subsidiary Iatros, Inc. ("Iatros"). The consolidated financial statements include 100% of losses incurred by Iatros as the portion of such losses attributed to the minority interest exceeds their investment basis.

All significant intercompany accounts and transactions have been eliminated.

BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the rules of the Securities and Exchange Commission, and accordingly may not include all disclosures required by accounting principles generally accepted in the United States of America for a complete set of financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the interim periods have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

GOODWILL

Goodwill represents the excess of the purchase price over fair value of net assets acquired. Goodwill is amortized on a straight-line basis over a seven-year period. Accumulated amortization was \$4,053,569 as of March 31, 2001. Total amortization expense for goodwill the three months ended March 31, 2001 and 2000 was \$527,178.

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LICENSES

During March of 2001, the Company sold its three remaining Local-to-Multipoint Distribution licenses to a shareholder of the Company for \$1,240,617 in cash. Proceeds from the sale of the licenses were equivalent to the net book value of the licenses at the time of sale. Accordingly, no gain or loss was recorded in the unaudited condensed consolidated statement of operations for the three months ended March 31, 2001.

Total amortization expense for licenses for the three months ended March 31, 2001 and 2000 was \$24,567 and \$43,950, respectively.

2. FINANCING

As of March 31, 2001, the Company had a line of credit with commercial lenders, which provided borrowings up to \$20,000,000. This line of credit expires May 30, 2004. Advances bear interest at either the Base Rate or L1BOR plus the Applicable Margin in effect. The Base Rate is defined as the higher of the Federal Funds Rate plus .50% or the lending banks' prime rate. Applicable Margin is defined as the finance charged based on interest rates relative to outstanding borrowings and accrued expenses and accounts payable. The line of credit is collateralized by the accounts receivable and property and equipment of the Company. As of March 31, 2001, the Company had \$20,000,000 available under the line of credit. The revolving line of credit was terminated in June 2001.

3. STOCK PURCHASE AGREEMENT

On May 8, 2001, the Company's stockholders entered into a stock purchase agreement with L-3 Communications Corporation to sell all issued and outstanding shares of the capital stock, consisting of 15,750 shares of common stock, \$0.01 par value per share.

4. LITIGATION

The Company is the defendant in a lawsuit seeking damages in connection with the Company's award of a federal contract and the employment of individuals who were previously employed by the predecessor contractor, the plaintiff. The plaintiff is seeking actual and consequential damages in an amount, which has not yet been stated, plus certain other damages under Virginia law. Based on the advice of legal counsel, the Company does not believe the ultimate resolution of this litigation will have a material adverse effect on stockholders' equity as of March 31, 2001.

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Unaudited Financial Information of L-3 Communications and Its Subsidiaries

The following unaudited condensed combining financial information gives effect to the inclusion of additional subsidiaries as guarantors on the results of operations, financial position and cash flows for the periods presented of (i) L-3 Communications excluding its consolidated subsidiaries ("Parent"), (ii) the Guarantors, (iii) the non-guarantor subsidiaries and (iv) the eliminations to arrive at the information for the Company on a consolidated basis.

The following information should be read together with L-3 Communications Corporation's quarterly report on Form 10-Q, for the nine months ended September 30, 2001 and the annual report on Form 10-K, for the year ended December 31, 2000.

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L-3 COMMUNICATIONS HOLDINGS, INC. AND
L-3 COMMUNICATIONS CORPORATION
CONDENSED COMBINING BALANCE SHEETS
(DOLLARS IN THOUSANDS)

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINA
AS OF SEPTEMBER 30, 2001				
Total current assets	\$ 550,572	\$ 327,554	\$ 88,441	\$
Other long-term assets	841,281	699,384	282,429	
Investment in and amounts due from consolidated subsidiaries	1,129,669	114,634	33,756	(1,27
Total assets	\$2,521,522	\$1,141,572	\$ 404,626	\$ (1,27
Total current liabilities	\$ 300,961	\$ 120,988	\$ 40,414	\$
Other long-term liabilities	133,333	31,764	3,048	
Long-term debt	911,608	--	--	
Minority interest	--	--	71,925	
Shareholders' equity	1,175,620	988,820	289,239	(1,27
Total liabilities and shareholders' equity	\$2,521,522	\$1,141,572	\$ 404,626	\$ (1,27
AS OF DECEMBER 31, 2000				
Total current assets	\$ 530,672	\$229,531	\$ 69,367	\$
Other long-term assets	1,110,082	433,763	90,129	
Investment in and amounts due from (to) consolidated subsidiaries	613,153	55,805	(27,022)	(64
Total assets	\$2,253,907	\$719,099	\$ 132,474	\$ (64

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Total current liabilities	\$ 365,123	\$ 71,948	\$ 31,598	\$
Other long-term liabilities	101,215	103,173	2,918	
Long-term debt	1,095,000	--	--	
Shareholders' equity	692,569	543,978	97,958	(64)
	-----	-----	-----	-----
Total liabilities and shareholders' equity	\$2,253,907	\$719,099	\$ 132,474	\$ (64)
	=====	=====	=====	=====

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L-3 COMMUNICATIONS HOLDINGS, INC. AND
L-3 COMMUNICATIONS CORPORATION
CONDENSED COMBINING STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS)

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATI
	-----	-----	-----	-----
FOR THE THREE MONTHS ENDED				
SEPTEMBER 30, 2001				
Sales	\$341,317	\$ 230,994	\$ 46,655	\$ (80)
	-----	-----	-----	-----
Operating income	56,201	12,062	6,945	--
Interest and other income (expense)	147	(333)	(13)	--
Interest expense	18,249	--	201	--
Minority interest	--	--	2,370	--
Provision for income taxes	14,591	4,492	1,671	--
Equity in net income of consolidated subsidiaries	9,927	--	--	(9,927)
	-----	-----	-----	-----
Net income	\$ 33,435	\$ 7,237	\$ 2,690	\$ (9,927)
	=====	=====	=====	=====
FOR THE THREE MONTHS ENDED				
SEPTEMBER 30, 2000				
Sales	\$349,433	\$ 120,979	\$ 44,003	\$ --
	-----	-----	-----	-----
Operating income (loss)	73,816	(4,009)	(6,992)	--
Interest and other income (expense)	2,274	49	(1,419)	--
Interest expense	24,646	14	171	--
Provision (benefit) for income taxes	19,238	(1,485)	(2,981)	--
Equity in net loss of consolidated subsidiaries	(8,090)	--	--	8,090
	-----	-----	-----	-----
Net income (loss)	\$ 24,116	\$ (2,489)	\$ (5,601)	\$ 8,090
	=====	=====	=====	=====
FOR THE NINE MONTHS ENDED				
SEPTEMBER 30, 2001				
Sales	\$939,146	\$ 604,691	\$100,829	\$ (3,04)
	-----	-----	-----	-----
Operating income	144,959	24,188	13,397	--
Interest and other income (expense)	8,127	(532)	(6,340)	--
Interest expense	64,647	--	239	--
Minority interest	--	--	3,955	--

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Provision for income taxes	33,872	9,060	1,097	—
Equity in net income of consolidated subsidiaries	16,362	--	--	(16,362)
Net income	<u>\$ 70,929</u>	<u>\$ 14,596</u>	<u>\$ 1,766</u>	<u>\$ (16,362)</u>
FOR THE NINE MONTHS ENDED				
SEPTEMBER 30, 2000				
Sales	\$911,281	\$ 318,347	\$122,815	\$ —
Operating income (loss)	148,123	3,034	(4,020)	—
Interest and other income (expense)	4,563	227	(1,329)	—
Interest expense	66,804	140	178	—
Provision (benefit) for income taxes	32,634	1,304	(1,966)	—
Equity in net loss of consolidated subsidiaries	(1,744)	--	--	1,744
Net income (loss)	<u>\$ 51,504</u>	<u>\$ 1,817</u>	<u>\$ (3,561)</u>	<u>\$ 1,744</u>

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L-3 COMMUNICATIONS HOLDINGS, INC. AND
L-3 COMMUNICATIONS CORPORATION
CONDENSED COMBINING STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	PARENT	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	ELIMINATIO
FOR THE NINE MONTHS ENDED				
SEPTEMBER 30, 2001				
Net cash from operating activities	\$ 31,054	\$ 29,947	\$ 22,839	—
Net cash used in investing activities ..	(165,613)	(217,206)	(17,621)	215,144
Net cash from financing activities	184,697	192,657	5,037	(215,144)
Net increase in cash	50,138	5,398	10,255	—
Cash and cash equivalents, beginning of period	18,708	4,911	9,061	—
Cash and cash equivalents, end of period	<u>\$ 68,846</u>	<u>\$ 10,309</u>	<u>\$ 19,316</u>	<u>\$ —</u>
FOR THE NINE MONTHS ENDED				
SEPTEMBER 30, 2000				
Net cash from (used in) operating activities	\$ 46,384	\$ 18,432	\$ (2,144)	\$ —
Net cash used in investing activities ..	(540,017)	(30,389)	(11,260)	36,520
Net cash from financing activities	484,360	11,341	10,724	(36,520)
Net decrease in cash	(9,273)	(616)	(2,680)	—
Cash and cash equivalents, beginning				

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of period	34,037	5,164	3,587	—
	-----	-----	-----	-----
Cash and cash equivalents, end of				
period	\$ 24,764	\$ 4,548	\$ 907	\$ —
	=====	=====	=====	=====

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