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 June 29, 2018

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

For the transition period from to

Commission file number 001-37975

L3 TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**13-3937436**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
600 Third Avenue, New York, NY	**10016**
(Address of principal executive offices)	**(Zip Code)**

(212) 697-1111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has 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) has been subject to such filing requirements for the past 90 days. x Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on the 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 registrant was required to submit and post such files). x Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes x No

There were 78,328,669 shares of the registrant's common stock with a par value of $0.01 outstanding as of the close of business on July 20, 2018.

L3 TECHNOLOGIES, INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q
For the quarterly period ended June 29, 2018

TABLE OF CONTENTS

PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

L3 TECHNOLOGIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in millions, except share data)

	(Unaudited) June 29, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,366	$ 662
Billed receivables, net of allowances of $18 in 2018 and 2017	863	723
Contract assets	1,611	—
Contracts in process	—	1,933
Inventories	934	389
Prepaid expenses and other current assets	332	300
Assets held for sale	—	135
Assets of discontinued operations	—	306
Total current assets	5,106	4,448
Property, plant and equipment, net	1,137	1,110
Goodwill	6,651	6,615
Identifiable intangible assets	288	292
Other assets	348	264
Total assets	$ 13,530	$ 12,729
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 581	$ —
Accounts payable, trade	588	531
Accrued employment costs	453	493
Accrued expenses	264	217
Contract liabilities	554	—
Advance payments and billings in excess of costs incurred	—	509
Income taxes payable	25	19
Other current liabilities	338	367
Liabilities held for sale	—	17
Liabilities of discontinued operations	—	226
Total current liabilities	2,803	2,379
Pension and postretirement benefits	1,290	1,313
Deferred income taxes	190	158
Other liabilities	416	398
Long-term debt	3,319	3,330
Total liabilities	8,018	7,578
Commitments and contingencies (see Note 19)		
Equity:		
Shareholders' equity:		
Common stock: $.01 par value; 300,000,000 shares authorized, 78,242,526 shares outstanding at June 29, 2018 and 77,876,687 shares outstanding at December 31, 2017	6,723	6,519
Treasury stock (at cost), 84,821,829 shares at June 29, 2018 and 83,362,412 shares at December 31, 2017	(7,691)	(7,404)
Retained earnings	7,126	6,659
Accumulated other comprehensive loss	(714)	(691)
Total shareholders' equity	5,444	5,083
Noncontrolling interests	68	68
Total equity	5,512	5,151
Total liabilities and equity	$ 13,530	$ 12,729

See notes to unaudited condensed consolidated financial statements.

L3 TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Second Quarter Ended	
	June 29, 2018	June 30, 2017
Net sales:		
Products	$ 1,786	$ 1,680
Services	797	705
Total net sales	2,583	2,385
Operating costs and expenses:		
Cost of sales — Products	(1,349)	(1,253)
Cost of sales — Services	(578)	(479)
General and administrative expenses	(383)	(359)
Total operating costs and expenses	(2,310)	(2,091)
Gain on sale of the Crestview Aerospace and TCS businesses	48	—
Operating income	321	294
Interest expense	(44)	(42)
Interest and other income, net	8	2
Debt retirement charge	(48)	—
Income from continuing operations before income taxes	237	254
Provision for income taxes	(48)	(59)
Income from continuing operations	189	195
Income from discontinued operations, net of income taxes	190	12
Net income	379	207
Net income from continuing operations attributable to noncontrolling interests	(4)	(5)
Net income attributable to L3	$ 375	$ 202
Basic earnings per share attributable to common shareholders:		
Continuing operations	$ 2.36	$ 2.44
Discontinued operations	2.42	0.15
Basic earnings per share	$ 4.78	$ 2.59
Diluted earnings per share attributable to common shareholders:		
Continuing operations	$ 2.33	$ 2.39
Discontinued operations	2.39	0.15
Diluted earnings per share	$ 4.72	$ 2.54
Cash dividends declared per common share	$ 0.80	$ 0.75
Weighted average common shares outstanding:		
Basic	78.4	78.0
Diluted	79.4	79.5

See notes to unaudited condensed consolidated financial statements.

L3 TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	First Half Ended	
	June 29, 2018	June 30, 2017
Net sales:		
Products	$ 3,432	$ 3,284
Services	1,522	1,422
Total net sales	4,954	4,706
Operating costs and expenses:		
Cost of sales — Products	(2,540)	(2,441)
Cost of sales — Services	(1,110)	(1,017)
General and administrative expenses	(780)	(717)
Total operating costs and expenses	(4,430)	(4,175)
Gain on sale of the Crestview Aerospace and TCS businesses	48	—
Operating income	572	531
Interest expense	(85)	(84)
Interest and other income, net	14	6
Debt retirement charge	(48)	—
Income from continuing operations before income taxes	453	453
Provision for income taxes	(72)	(101)
Income from continuing operations	381	352
Income from discontinued operations, net of income taxes	206	23
Net income	587	375
Net income from continuing operations attributable to noncontrolling interests	(9)	(9)
Net income attributable to L3	$ 578	$ 366
Basic earnings per share attributable to common shareholders:		
Continuing operations	$ 4.75	$ 4.40
Discontinued operations	2.63	0.30
Basic earnings per share	$ 7.38	$ 4.70
Diluted earnings per share attributable to common shareholders:		
Continuing operations	$ 4.67	$ 4.32
Discontinued operations	2.59	0.29
Diluted earnings per share	$ 7.26	$ 4.61
Cash dividends declared per common share	$ 1.60	$ 1.50
Weighted average common shares outstanding:		
Basic	78.3	77.8
Diluted	79.6	79.4

See notes to unaudited condensed consolidated financial statements.

L3 TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
Net income	$ 379	$ 207	$ 587	$ 375
Other comprehensive income (loss):				
Foreign currency translation adjustments	(72)	52	(39)	71
Unrealized lossess on hedging instruments [1]	(10)	—	(11)	—
Pension and postretirement benefit plans:				
Amortization of net loss and prior service cost previously recognized [2]	13	10	27	19
Total other comprehensive (loss) income	(69)	62	(23)	90
Comprehensive income	310	269	564	465
Comprehensive income attributable to noncontrolling interests	(4)	(5)	(9)	(9)
Comprehensive income attributable to L3	$ 306	$ 264	$ 555	$ 456

(1) Net of income tax benefit of $3 million for each of the quarterly and first half periods ended June 29, 2018.

(2) Net of income taxes of $4 million and $5 million for the quarterly periods ended June 29, 2018 and June 30, 2017, respectively, and net of income taxes of $8 million and $11 million for the first half periods ended June 29, 2018 and June 30, 2017, respectively.

See notes to unaudited condensed consolidated financial statements.

L3 TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF EQUITY
(in millions, except per share data)

	Common Stock							
	Shares Outstanding	Par Value	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Noncontrolling Interests	Total Equity
For the First Half Ended June 29, 2018:								
Balance at December 31, 2017 - as reported	77.9	$ 1	$ 6,518	$ (7,404)	$ 6,659	$ (691)	$ 68	$ 5,151
Cumulative effect adjustment of ASC 606 on January 1, 2018, net of taxes					13			13
Net income					578		9	587
Other comprehensive loss						(23)		(23)
Distributions to noncontrolling interests							(9)	(9)
Cash dividends declared ($1.60 per share)					(126)			(126)
Shares issued:								
Employee savings plans	0.3		72					72
Exercise of stock options	1.2		103					103
Employee stock purchase plan	0.1		17					17
Vesting of restricted stock and performance units	0.3							—
Repurchases of common stock to satisfy tax withholding obligations	(0.1)		(24)					(24)
Stock-based compensation expense			34					34
Treasury stock purchased	(1.5)			(287)				(287)
Other			2		2			4
Balance at June 29, 2018	78.2	$ 1	$ 6,722	$ (7,691)	$ 7,126	$ (714)	$ 68	$ 5,512
For the First Half Ended June 30, 2017:								
Balance at December 31, 2016	77.2	$ 1	$ 6,284	$ (7,224)	$ 6,218	$ (726)	$ 71	$ 4,624
Net income					366		9	375
Other comprehensive income						90		90
Distributions to noncontrolling interests							(9)	(9)
Cash dividends declared ($1.50 per share)					(118)			(118)
Shares issued:								
Employee savings plans	0.4		60					60
Exercise of stock options	0.3		25					25
Employee stock purchase plan	0.1		16					16
Vesting of restricted stock and performance units	0.3							—
Repurchases of common stock to satisfy tax withholding obligations	(0.1)		(18)					(18)
Stock-based compensation expense			28					28
Treasury stock purchased	(0.2)			(26)				(26)
Balance at June 30, 2017	78.0	$ 1	$ 6,395	$ (7,250)	$ 6,466	$ (636)	$ 71	$ 5,047

See notes to unaudited condensed consolidated financial statements.

L3 TECHNOLOGIES, INC.
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	First Half Ended	
	June 29, 2018	June 30, 2017
Operating activities:		
Net income	$ 587	$ 375
Less: income from discontinued operations, net of tax	(206)	(23)
Income from continuing operations	381	352
Depreciation of property, plant and equipment	90	82
Amortization of intangibles and other assets	26	24
Deferred income tax provision	21	25
Stock-based compensation expense	34	28
Contributions to employee savings plans in L3's common stock	68	56
Amortization of pension and postretirement benefit plans net loss and prior service cost	35	30
Gain on sale of property, plant and equipment	—	(42)
Gain on sale of the Crestview Aerospace and TCS businesses	(48)	—
Debt retirement charge	48	—
Other non-cash items	1	6
Changes in operating assets and liabilities, excluding amounts from acquisitions and divestitures, and discontinued operations:		
Billed receivables	(137)	(88)
Contract assets	(266)	—
Contracts in process	—	(123)
Inventories	(10)	(12)
Prepaid expenses and other current assets	(82)	(15)
Accounts payable, trade	61	(99)
Accrued employment costs	(38)	(28)
Accrued expenses	63	158
Contract liabilities	(2)	—
Advance payments and billing in excess of costs incurred	—	(10)
Income taxes	(22)	(12)
All other operating activities	(45)	(17)
Net cash from operating activities from continuing operations	178	315
Investing activities:		
Business acquisitions, net of cash acquired	(69)	(191)
Proceeds from the sale of businesses, net of closing date cash balances	535	16
Capital expenditures	(108)	(96)
Dispositions of property, plant and equipment	1	65
Other investing activities	(29)	(1)
Net cash from (used in) investing activities from continuing operations	330	(207)
Financing activities:		
Proceeds from sale of senior notes	1,798	—
Repurchases and redemptions of senior notes	(1,263)	—
Borrowings under revolving credit facility	501	1,158
Repayments of borrowings under revolving credit facility	(501)	(1,158)
Common stock repurchased	(287)	(26)
Dividends paid	(128)	(119)
Proceeds from exercises of stock options	103	25
Proceeds from employee stock purchase plan	17	16
Repurchases of common stock to satisfy tax withholding obligations	(24)	(18)
Debt issue costs	(13)	—
Other financing activities	(6)	(8)
Net cash from (used in) financing activities from continuing operations	197	(130)
Effect of foreign currency exchange rate changes on cash and cash equivalents	(8)	10
Net cash from (used in) discontinued operations:		
Operating activities	9	36
Investing activities	(2)	(2)

Net cash from discontinued operations	7	34
Net increase cash and cash equivalents	704	22
Cash and cash equivalents, beginning of the period	662	363
Cash and cash equivalents, end of the period	$ 1,366	$ 385

See notes to unaudited condensed consolidated financial statements.

L3 TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS

1. Description of Business

L3 Technologies, Inc. (L3 Technologies, Inc. and, together with its subsidiaries, referred to herein as L3 or the Company) is a prime contractor in Intelligence, Surveillance and Reconnaissance (ISR) systems, aircraft sustainment (including modifications and fleet management of special mission aircraft), simulation and training, night vision and image intensification equipment and security and detection systems. L3 is also a leading provider of a broad range of communication, electronic and sensor systems used on military, homeland security 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), foreign governments, and domestic and foreign commercial customers.

The Company has the following four reportable segments: (1) Electronic Systems, (2) Aerospace Systems, (3) Communication Systems and (4) Sensor Systems.

Electronic Systems provides a broad range of products and services, including components, products, subsystems, systems and related services to military and commercial customers. These products and services serve niche markets, such as aircraft simulation and training, power and distribution, cockpit avionics, airport security and precision weapons. Electronic Systems sells these products and services primarily to the DoD and select foreign governments. The Electronic Systems business areas are Link Training & Simulation, Power & Propulsion Systems, Commercial Aviation Solutions, Precision Engagement Systems and Security & Detection Systems.

Aerospace Systems provides products and services for the global ISR and Command, Control and Communications (C^3) markets, specializing in signals intelligence (SIGINT) and multi-intelligence platforms, including engineering, modernization and sustainment solutions for military and various government aircraft, ground support equipment and other platforms. These strategic and tactical products and services provide warfighters with the ability to detect, collect, identify, analyze and disseminate information from command centers, communication nodes and air defense systems for real-time situational awareness and response. Aerospace Systems sells these products and services primarily to the DoD and select foreign governments. The Aerospace Systems business areas are Mission Integration, MAS, Aerostructures and Advanced Systems.

Communication Systems provides network and communication systems, secure communications products, radio frequency (RF) components, satellite communication terminals and space, microwave and telemetry products. These products include secure data links that are used to connect a variety of space, airborne, ground and sea-based communication systems and are used in transmission, processing, recording, monitoring and dissemination functions of these communication systems. Communication Systems sells these products and services primarily to the DoD and select foreign governments. The Communications Systems business areas are Broadband Communication Systems, Space & Power Systems and Advanced Communications.

Sensor Systems provides a broad range of multi-domain ISR mission solutions from seabed to space for DoD, intelligence community, international, federal, civil and commercial customers. Major capabilities and mission solutions include networked warfighter systems, integrated ISR and targeting systems, space avionics and imaging payloads, Counter Unmanned Aircraft Systems mission solutions, integrated maritime mission solutions, directed energy, cyber and electronic warfare, special mission command & control, lightweight unmanned undersea vehicles, modeling & simulation and life cycle support. Sensor Systems sells these products and services primarily to the DoD and select foreign governments. The Sensor Systems business areas are Space & Sensor Systems, Airborne Sensor Systems, Warrior Sensor Systems, Maritime Sensor Systems, Intelligence & Mission Systems and Advanced Programs.

Financial information with respect to the Company's segments is included in Note 23 to the unaudited condensed consolidated financial statements and in Note 21 to the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

On June 29, 2018, the Company completed the sale of its Vertex Aerospace businesses for a sale price of $540 million subject to customary closing net working capital adjustments. In connection with the sale, the Company recognized: (1) a pre-tax gain from continuing operations of $48 million ($25 million after income taxes) related to the Crestview Aerospace and TCS businesses (the "Crestview & TCS Businesses") and (2) a pre-tax gain from discontinued operations of $237 million ($180 million after income taxes) related to the Vertex Aerospace business. The divestiture of the Vertex Aerospace business represents a strategic shift by the Company to exit the logistics solution and maintenance services business for military aircraft where the Company does not provide complex ISR systems integration and modification. The Vertex Aerospace business generated sales of $1.4 billion for the year ended December 31, 2017. The assets and liabilities and results of operations of the Vertex Aerospace business are reported as discontinued operations for all periods presented.

All references made to financial data in this Quarterly Report on Form 10-Q are to the Company's continuing operations, unless specifically noted. See Note 5 for additional information.

2. Basis of Presentation

These unaudited condensed consolidated financial statements for the quarterly and first half periods ended June 29, 2018 should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation and Reporting

The accompanying financial statements comprise the consolidated financial statements of L3. The consolidated financial statements of the Company include all wholly-owned and majority-owned subsidiaries and variable interest entities (VIEs) if the Company is the primary beneficiary. The Company holds interests in certain VIEs for which it was determined the Company is not the primary beneficiary. 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 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. For the classification of certain current assets and liabilities, the Company uses the duration of the related contract or program as its operating cycle, which may be longer than one year.

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

The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the disclosures required by U.S. GAAP for a complete set of annual audited financial statements. The December 31, 2017 condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. In the opinion of management, all adjustments (consisting of normal and recurring adjustments) considered necessary for a fair statement of the results for the interim periods presented have been included. The results of operations for the interim periods are not necessarily indicative of results for the full year.

It is generally the Company's established practice to close its books for the quarters ending March, June and September on the Friday preceding the end of the calendar quarter. The interim unaudited condensed consolidated financial statements included herein have been prepared and are labeled based on that convention. The Company closes its books for annual periods on December 31 regardless of what day it falls on.

Accounting Estimates

The preparation of financial statements in conformity with 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 for L3 relate to sales, profit and loss recognition related to performance obligations satisfied over time, fair values of assets acquired and liabilities assumed in business combinations and investments, market values for inventories reported at lower of cost or market, pension and postretirement benefit obligations, stock-based employee compensation expense, income taxes, including the valuations of deferred tax assets, litigation reserves, 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 may differ from these estimates and could differ materially.

Revenue Recognition

Effective January 1, 2018, the Company adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*, as amended (commonly referred to as ASC 606) using the modified retrospective transition method. The cumulative effect of applying the standard was an increase of $13 million to shareholders' equity as of January 1, 2018. The Company's statement of operations for the quarterly and first half periods ended June 29, 2018 and the Company's balance sheet as of June 29, 2018 are presented under ASC 606, while the Company's statement of operations for the quarterly and first half periods ended June 30, 2017 and the Company's balance sheet as of December 31, 2017 are presented under ASC 605, *Revenue Recognition*. See Note 3 for disclosure of the impact of the adoption of ASC 606 on the Company's statement of operations for the quarterly and first half periods ended June 29, 2018 and balance sheet as of June 29, 2018 and the effect of changes made to the Company's consolidated balance sheet as of January 1, 2018.

A substantial majority of the Company's consolidated net sales are generated from long-term contracts with customers that require it to design, develop, manufacture, modify, upgrade, test and integrate complex aerospace and electronic equipment and to provide engineering and technical services according to the customers' specifications. These contracts are primarily with agencies of, and prime system contractors to, the U.S. Government and foreign governments and are generally priced on a fixed-price, cost-plus or time-and-material type basis. Substantially all of the Company's cost-plus and time-and-material type contracts are with the U.S. Government, primarily the DoD. Certain of the Company's contracts with the U.S. Government are multi-year contracts incrementally funded by the customer. The transaction price on these incrementally funded contracts includes contract value amounts not yet funded by the U.S. Government when the Company has a firm order for the goods or services and it is probable that the customer will fund such amounts. In assessing probability, the Company considers, among other factors, the period of time before contract funding is expected, communication from the customer that indicates funding will be obtained and the Company's history of receiving funding under the current contract or previous similar contracts. The Company also generates sales to a lesser extent from contracts with commercial and government customers for standard product and service offerings, which are priced on a firm fixed basis. See Note 23 for additional information regarding the composition of the Company's net sales.

The Company records sales for a contract when it has the approval and commitment of all parties, the contract identifies the rights of the parties and payment terms, the contract has commercial substance and collectibility of the consideration is probable.

To determine the proper revenue recognition method, the Company first evaluates each of its contractual arrangements to identify its performance obligations. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The majority of the Company's contracts have a single performance obligation because the promise to transfer the individual good or service is not separately identifiable from other promises within the contract and is, therefore, not distinct. These contractual arrangements either require the use of a highly specialized manufacturing process to provide goods according to customer specifications or represent a bundle of contracted goods and services that are integrated and together represent a combined output, which may include the delivery of multiple units. Some of the Company's contracts have multiple performance obligations, primarily (i) related to the provision of multiple goods or services that have alternative use to the Company or that are not substantially the same or (ii) due to the contract covering multiple phases of the product lifecycle (development and engineering, production, maintenance and support). For contracts with more than one performance obligation, the Company allocates the total transaction price in an amount based on the estimated relative standalone selling prices underlying each performance obligation. In cases where a contract requires a customized good or service, the primary method used to estimate standalone selling price is the expected cost plus a margin approach. In cases where the Company sells a standard product or service offering, the standalone selling price is based on an observable standalone selling price.

The majority of the Company's sales are from performance obligations satisfied over time and are primarily with agencies of, and prime system contractors to, the U.S. Government and foreign governments. Sales are recognized over time when control is continuously transferred to the customer during the contract. For U.S. Government contracts, the continuous transfer of control to the customer is supported by contract clauses that provide for (i) progress or performance-based payments or (ii) the unilateral right of the customer to terminate the contract for its convenience, in which case the Company has the right to receive payment for costs incurred plus a reasonable profit for products and services that do not have alternative use to the Company. Foreign government and certain commercial contracts contain similar termination for convenience clauses, or the Company has a legally enforceable right to receive payment for costs incurred and a reasonable profit for products or services that do not have alternative use to the Company. Sales on fixed price and cost-plus type contracts that include performance obligations satisfied over time are generally recorded at amounts equal to the ratio of actual cumulative costs incurred divided by total estimated costs at completion, multiplied by (i) the transaction price, less (ii) the cumulative sales recognized in prior periods (cost-to-cost method).

Accounting for the sales and profits on performance obligations for which progress is measured using the cost-to-cost method involves the preparation of estimates of: (1) transaction price and (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. Incurred costs include labor, material, overhead and, for the Company's U.S. Government contractor businesses, general and administrative (G&A) expenses. Incurred costs represent work performed, which corresponds with and thereby represents the transfer of control to the customer. The estimated profit or loss at completion on a contract is equal to the difference between the transaction price and the total estimated cost at completion. In the case of a contract related to complex aerospace or electronic equipment for which the total estimated costs exceed the total transaction price, 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 the future periods are presented on the balance sheet 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." See Note 10 for additional information.

The Company’s contracts give rise to variable consideration, including award and incentive fees, as well as amounts incrementally funded by the U.S. Government, or other provisions that can either increase or decrease the transaction price. 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 between total allowable costs and target costs. Variable consideration may require the Company to exercise significant judgment to determine the total transaction price of the contract. The Company includes variable consideration in the transaction price when there is a basis to reasonably estimate the variable amount it will be entitled to receive and it is probable that a significant reversal in revenue recognized will not be required when the uncertainty is resolved. These estimates are based on historical experience, current and forecasted performance, and the Company’s judgment at the time of the evaluation.

Contract modifications routinely occur to account for changes in contract specifications or requirements. In most cases, contract modifications are for goods or services that are not distinct and, therefore, are accounted for as part of the existing contract. Transaction price estimates include additional consideration for submitted contract modifications or claims when the Company believes it has an enforceable right to the modification or claim, the amount can be reliably estimated and its realization is reasonably assured. Amounts representing modifications accounted for as part of the existing contract are included in the transaction price and recognized as an adjustment to sales on a cumulative catch-up basis.

The Company’s fixed-price type contracts with the U.S. Government typically allow for progress payments or performance-based payments. Progress payments are billed to the customer as contract costs are incurred at an amount generally equal to 80% of incurred costs. Performance based payments are billed to the customer upon the achievement of predetermined performance milestones at amounts not to exceed 90% of contract price. On contracts with progress or performance-based payments, the customer often retains a small portion of the contract price until satisfactory completion of the contractual statement of work. Since a small portion of the contract price is retained, the Company generally recognizes sales in excess of billings, which are presented as contract assets on the balance sheet. The portion of the contract price retained by the customer is a normal business practice to ensure satisfactory contract completion and, therefore, is not considered a significant financing component. Contract assets also arise from cost-plus type contracts, time-and-material type contracts and fixed-price services type contracts for revenue amounts that have not been billed by the end of the accounting period due to the timing of preparation of invoices to customers. For certain fixed-price contracts with foreign governments and commercial customers, the Company receives advance payments. Advanced payments are not considered a significant financing component because they are a negotiated contract term to ensure the customer meets its financial obligation, particularly when there are significant upfront working capital requirements. The Company records a liability for advance payments received in excess of sales recognized, which is presented as a contract liability on the balance sheet.

Revisions or adjustments to estimates of the transaction price, estimated costs at completion and estimated profit or loss of a performance obligation are often required as work progresses under a contract, as experience is gained, as facts and circumstances change and as new information is obtained, even though the scope of work required under the contract may not change. Revisions or adjustments may also be required if contract modifications occur. The impact of revisions in profit or loss estimates are recognized on a cumulative catch-up basis in the period in which the revisions are made. The revisions in contract estimates, if significant, can materially affect the Company's results of operations and cash flows, as well as reduce the valuations of contract assets and inventories, and in some cases result in liabilities to complete contracts in a loss position. The aggregate impact of net changes in contract estimates is presented in the table below.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions, except per share data)			
Operating income	$ 64	$ 42	$ 128	$ 84
Diluted earnings per share	$ 0.61	$ 0.35	$ 1.22	$ 0.67

Net sales recognized from the Company's performance obligations satisfied in prior periods were $71 million and $139 million for the quarterly and first half periods ended June 29, 2018, respectively, and relate to revisions in contract estimates.

Sales from performance obligations satisfied at a point in time are typically for standard goods and are recognized when the customer obtains control, which is generally upon delivery and acceptance. The Company also records sales for performance obligations relating to standard services (i.e., maintenance and extended warranties covering standard goods sold by the Company) over time by using output measures of time elapsed to measure progress toward satisfying the performance obligation.

Sales on time-and-material type contracts are generally recognized each period based on the amount billable to the customer, which is based on direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of materials and other direct non-labor costs.

The following table presents a summary of the Company's net sales by revenue recognition method as a percentage of total net sales for the first half period ended June 29, 2018.

	% of Total Net Sales
Cost to cost method	76%
Point in time	18%
Output method	3%
Billing method	3%
Total	100%

Remaining Performance Obligations

On June 29, 2018, the Company had $10.2 billion of remaining performance obligations, which represents the transaction price of firm orders less inception to date sales recognized. Remaining performance obligations exclude unexercised contract options and potential orders under basic ordering agreements or master-type contracts (i.e., indefinite-delivery, indefinite-quantity (IDIQ)). The Company expects to recognize sales relating to existing performance obligations of approximately $4.7 billion during the remainder of 2018, $3.5 billion in 2019, $1.2 billion in 2020 and $0.8 billion in the periods thereafter.

General and Administrative Expenses

The Company's U.S. Government contractor businesses account for the portion of their G&A, independent research and development (IRAD) and bids and proposal (B&P) costs that are allowable and reimbursable indirect contract costs under U.S. Government procurement regulations on their U.S. Government contracts as inventory. G&A, IRAD and B&P costs are allocated to contracts for which the U.S. Government is the end customer and are charged to costs of sales when sales on the related contracts are recognized. The Company's U.S. Government contractor businesses record the unallowable portion of their G&A, IRAD and B&P costs to expense as incurred and do not include them in inventory. G&A expenses for the Company's commercial businesses are expensed as incurred. The total research and development expenses incurred were $86 million and $161 million for the quarterly and first half periods ended June 29, 2018, respectively.

The Company capitalizes the incremental costs of obtaining a contract with foreign governments and foreign and domestic commercial customers (third-party sales commissions) if the Company expects to recover the costs under the contract. The Company expenses the costs to obtain a contract as incurred when the expected amortization period is one year or less. The Company classifies the portion of capitalized costs of obtaining a contract to be amortized over the next 12 months within prepaid expense and other current assets and classifies the remaining amount within other assets in its consolidated balance sheets.

Investments in and Loans to Nonconsolidated Affiliates

The Company's investments in nonconsolidated affiliates are primarily accounted for using the equity method of accounting and are carried at cost, plus or minus the Company's share of net earnings or losses of the investment, subject to certain other adjustments. The cost of equity method investments includes transaction costs of the acquisition. As required by U.S. GAAP, to the extent that there is a basis difference between the cost and the underlying equity in the net assets of an equity investment, the Company allocates such differences between tangible and intangible assets. The Company's share of net earnings or losses of the investment, inclusive of amortization expense for any basis difference associated with the investment, are presented in interest and other income, net, on the Company's consolidated statements of operations. Dividends received from the investee reduce the carrying amount of the investment. Due to the timing of receiving financial information from its nonconsolidated affiliates, the Company may record its share of net earnings or losses of such affiliates on a three-month lag basis, with the exception of the amortization expense of any basis difference related to tangible and intangible assets which are recorded currently.

3. New Accounting Standards Implemented

Effective January 1, 2018, the Company adopted Financial Accounting Standards Board (FASB) ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. Defined benefit pension and postretirement benefit cost (net benefit cost) comprise several components that reflect different aspects of the Company's financial arrangements as well as the cost of benefits provided to employees. Under previous U.S. GAAP, those components were aggregated for reporting in the financial statements and presented within the operating section of the income statement or capitalized into assets (inventories) when appropriate. The amendments in this update require the Company to report the service cost component in the same line item as other compensation costs arising from services rendered by the employees during the period. The other components of net benefit cost are required to be presented separately from the service cost component and below income from operations. Plan administrative expenses, which were previously included in service cost, are presented together with expected return on plan assets, as a component of Interest and other income, net. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. The amendments in this update have been applied retrospectively for the presentation of the components of net benefit cost and prospectively for the capitalization of the service cost component of net benefit cost. The adoption of this standard decreased operating income and increased interest and other income, net, each by $3 million and $5 million for the quarterly and first half periods ended June 29, 2018, respectively, and increased operating income and decreased interest and other income, net, each by $2 million and $3 million for the quarterly and first half periods ended June 30, 2017, respectively. The adoption of this standard did not impact pre-tax income for the quarterly and first half periods ended June 29, 2018 and June 30, 2017.

In January 2017, the FASB issued ASU 2017-01, *Clarifying the Definition of a Business*, which provides additional guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments in this update provide new guidance to determine when an integrated set of assets and activities (collectively referred to as a ‘‘set’’) is not a business. The new guidance requires that, when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. The new guidance reduces the number of transactions that need to be evaluated as a business. The Company adopted this amendment as of January 1, 2018. The adoption of ASU 2017-01 did not have a material impact on the Company's financial statements for the first half period ended June 29, 2018.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*, as amended (commonly referred to as ASC 606), which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers and significantly expanded the disclosure requirements for revenue arrangements. The new standard, as amended, was effective for the Company for interim and annual reporting periods beginning on January 1, 2018.

As discussed in Note 2, the Company adopted ASC 606 using the modified retrospective transition method. Results for reporting periods beginning after December 31, 2017 are presented under ASC 606, while prior period comparative information has not been restated and continues to be reported in accordance with ASC 605, *Revenue Recognition*, the accounting standard in effect for periods ending prior to January 1, 2018. With the adoption of ASC 606, the Company recognizes sales over time by using the cost-to-cost method on most of its (i) contracts that were covered by the contract accounting standards under ASC 605 and (ii) fixed-price type contracts that require it to perform services that are not related to the production of tangible assets. Accordingly, the adoption of ASC 606 primarily impacted certain (i) contracts previously covered by contract accounting standards that recognized revenue using the units-of-delivery method and (ii) fixed-price type contracts for services that are not related to the production of tangible assets that recognized revenue on a straight-line basis over the contractual service period.

Based on contracts in process at December 31, 2017, the Company recorded, upon adoption of ASC 606, a net increase to retained earnings of $13 million, which includes the acceleration of net sales of approximately $380 million and the related cost of sales. The adjustment to retained earnings primarily relates to contracts previously accounted for under the units-of-delivery method, which is recognized under ASC 606 earlier in the performance period as costs are incurred, as opposed to when the units are delivered under ASC 605. In accordance with the modified retrospective transition provisions of ASC 606, the Company will not recognize any of the accelerated net sales and related cost of sales at January 1, 2018 in the Company’s statements of operations for any historical or future period.

The Company made certain presentation changes to its consolidated balance sheet on January 1, 2018 to comply with ASC 606. The components of contracts in process as reported under ASC 605, which included unbilled contract receivables and inventoried contract costs, have been reclassified as contract assets and inventories, respectively, after certain adjustments described below under ASC 606. The adoption of ASC 606 resulted in an increase in unbilled contract receivables (referred to as contract assets under ASC 606) primarily from converting contracts previously applying the units-of-delivery method to the cost-to-cost method with a corresponding reduction in inventoried contract costs. The remainder of inventoried contract costs, primarily related to inventories not controlled by the Company's customers, were reclassified to inventories. Additionally, under ASC 606, the Company capitalizes costs to fulfill a contract (i.e., non-recurring costs for contract-related activities that do not transfer a good or service to the customer) and costs to obtain a contract (i.e., commissions paid to third-party agents or representatives) to prepaid expense and other current assets or other assets (non-current). The Company amortizes costs to obtain a contract and costs to fulfill a contract in a pattern similar to the recognition of sales on the contracts that the capitalized costs relate to. The Company previously accounted for costs to fulfill a contract either as inventoried contract costs or expensed them as incurred. Costs to obtain a contract were generally expensed as incurred. Advance payments and billings in excess of costs and deferred revenue, previously classified in other current liabilities, have been combined and are presented as contract liabilities.

The table below presents the cumulative effect of the changes made to the consolidated January 1, 2018 balance sheet due to the adoption of ASC 606.

BALANCE SHEET	December 31, 2017 As Reported Under ASC 605	Adjustments Due to ASC 606	January 1, 2018 As Adjusted Under ASC 606
		(in millions)	
Assets			
Current assets:			
Contract assets	$ —	$ 1,349	$ 1,349
Contracts in process	1,933	(1,933)	—
Inventories	389	537	926
Prepaid expenses and other current assets	300	17	317
Assets held for sale	135	3	138
Assets of discontinued operations	306	(21)	285
Total current assets	4,448	(48)	4,400
Other assets	264	49	313
Total assets	$ 12,729	$ 1	$ 12,730
Liabilities			
Current liabilities:			
Accrued expenses	$ 217	$ (13)	$ 204
Contract liabilities	—	565	565
Advance payments and billing in excess of costs incurred	509	(509)	—
Other current liabilities	367	(49)	318
Liabilities held for sale	17	(1)	16
Liabilities of discontinued operations	226	(23)	203
Total current liabilities	2,379	(30)	2,349
Deferred income taxes	158	4	162
Other liabilities	398	14	412
Total liabilities	7,578	(12)	7,566
Shareholders' Equity			
Retained earnings	6,659	13	6,672
Total equity	$ 5,151	$ 13	$ 5,164

The tables below present the impact of the adoption of ASC 606 on the Company's statement of operations.

	Second Quarter Ended June 29, 2018		
STATEMENT OF OPERATIONS	Under ASC 605	Effect of ASC 606	As Reported Under ASC 606
		(in millions)	
Net Sales:			
Products	$ 1,741	$ 45	$ 1,786
Services	797	—	797
Total	2,538	45	2,583
Operating costs and expenses:			
Cost of sales — Products	$ (1,316)	$ (33)	$ (1,349)
Cost of sales — Services	(561)	(17)	(578)
General and administrative expenses	(387)	4	(383)
Gain on sale of the Crestview & TCS Businesses	47	1	48
Operating income	321	—	321
Income from continuing operations before income taxes	237	—	237
Provision for income taxes	(48)	—	(48)
Income from continuing operations	189	—	189
Income from discontinued operations, net of income taxes	191	(1)	190
Net income	380	(1)	379
Net income attributable to L3	$ 376	$ (1)	$ 375
Basic earnings per share attributable to common shareholders:			
Continuing operations	$ 2.36	$ —	$ 2.36
Discontinued operations	2.44	(0.02)	2.42
Basic earnings per share	$ 4.80	$ (0.02)	$ 4.78
Diluted earnings per share attributable to common shareholders:			
Continuing operations	$ 2.33	$ —	$ 2.33
Discontinued operations	2.41	(0.02)	2.39
Diluted earnings per share	$ 4.74	$ (0.02)	$ 4.72

	First Half Ended June 29, 2018		
STATEMENT OF OPERATIONS	Under ASC 605	Effect of ASC 606	As Reported Under ASC 606
		(in millions)	
Net Sales:			
Products	$ 3,315	$ 117	$ 3,432
Services	1,518	4	1,522
Total	4,833	121	4,954
Operating costs and expenses:			
Cost of sales — Products	$ (2,461)	$ (79)	$ (2,540)
Cost of sales — Services	(1,089)	(21)	(1,110)
General and administrative expenses	(777)	(3)	(780)
Gain on sale of the Crestview & TCS Businesses	47	1	48
Operating income	553	19	572
Income from continuing operations before income taxes	434	19	453
Provision for income taxes	(67)	(5)	(72)
Income from continuing operations	367	14	381
Income from discontinued operations, net of income taxes	206	—	206
Net income	573	14	587
Net income attributable to L3	$ 564	$ 14	$ 578
Basic earnings per share attributable to common shareholders:			
Continuing operations	$ 4.57	$ 0.18	$ 4.75
Discontinued operations	2.63	—	2.63
Basic earnings per share	$ 7.20	$ 0.18	$ 7.38
Diluted earnings per share attributable to common shareholders:			
Continuing operations	$ 4.50	$ 0.17	$ 4.67
Discontinued operations	2.59	—	2.59
Diluted earnings per share	$ 7.09	$ 0.17	$ 7.26

The following table quantifies the impact of adopting ASC 606 on segment net sales and segment operating income for the quarterly and first half periods ended June 29, 2018.

	Effect of ASC 606			
	Second Quarter Ended June 29, 2018		First Half Ended June 29, 2018	
	Sales	Operating Income	Sales	Operating Income
		(in millions)		
Electronic Systems	$ 14	$ 4	$ 44	$ 7
Aerospace Systems	(2)	(7)	2	(6)
Communication Systems	21	(1)	41	3
Sensor Systems	12	3	34	14
Segment totals	$ 45	$ (1)	$ 121	$ 18

The table below presents the impact of the adoption of ASC 606 on the Company's balance sheet.

BALANCE SHEET	June 29, 2018 Under ASC 605	Effect of ASC 606	As Reported Under ASC 606
		(in millions)	
Assets			
Current assets:			
Contract assets	$ —	$ 1,611	$ 1,611
Contracts in process	2,185	(2,185)	—
Inventories	405	529	934
Prepaid expenses and other current assets	316	16	332
Assets held for sale	—	—	—
Assets of discontinued operations	—	—	—
Total current assets	5,135	(29)	5,106
Other assets	300	48	348
Total assets	$ 13,511	$ 19	$ 13,530
Liabilities			
Current liabilities:			
Accrued expenses	$ 279	$ (15)	$ 264
Contract liabilities	—	554	554
Advance payments and billings in excess of costs incurred	522	(522)	—
Other current liabilities	384	(46)	338
Total current liabilities	2,832	(29)	2,803
Deferred income taxes	181	9	190
Other liabilities	402	14	416
Total liabilities	8,024	(6)	8,018
Shareholders' Equity			
Retained earnings	7,101	25	7,126
Total equity	$ 5,487	$ 25	$ 5,512

4. Accounting Standards Issued and Not Yet Implemented

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this update allow a reclassification from accumulated other comprehensive income (AOCI) to retained earnings for stranded tax effects resulting from the U.S. Tax Cuts and Jobs Act (U.S. Tax Reform). The new standard is effective for the Company beginning on January 1, 2019, with early adoption permitted. The Company will adopt ASU 2018-02 effective January 1, 2019. The Company does not expect the adoption of this standard will have a material effect on its financial position, results of operations or cash flows.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*. The amendments in this update intend to better align the Company risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedge relationships and the presentation of hedge results. The amendments in this update require the Company to present the earnings effect of the hedging instrument in the same income statement line in which the earnings effect of the hedged item is reported. Current U.S. GAAP provides for hedge accounting only for the portion of the hedge deemed to be highly effective and requires the Company to separately reflect the amount by which the hedging instrument does not offset the hedged item, which is referred to as the ineffective amount. The amendments in this update no longer require the Company to separately measure and report hedge ineffectiveness. The new standard is effective for the Company for interim and annual reporting periods beginning on January 1, 2019, with early adoption permitted. For cash flow hedges existing at the date of adoption, the Company is required to apply a cumulative effect adjustment relating to the separate measurement of ineffectiveness to the opening balance of retained earnings. The amended presentation and disclosure guidance is required only prospectively. The Company will adopt ASU 2017-12 effective January 1, 2019. The Company does not expect the adoption of this standard to have a material effect on its financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which updates the existing guidance on accounting for leases and requires new qualitative and quantitative disclosures about the Company’s leasing activities. The new standard requires the Company to recognize lease assets and lease liabilities on the balance sheet for all leases under which the Company is the lessee, including those classified as operating leases under previous accounting guidance. The Company will measure leases commencing after the adoption date based on the present value of the lease payments due over the lease term (as defined in ASU 2016-02), after applying the separation and allocation guidance of the new standard. The new standard, as amended, will be effective for the Company for interim and annual reporting periods beginning on January 1, 2019, with early adoption permitted. In the adoption year, the Company will be required to (i) measure and recognize its existing leases based on the present value of the remaining minimum lease payments, as defined in existing guidance on accounting for leases, and (ii) restate each prior reporting period presented. The Company is currently evaluating the expected impact of the adoption of this standard on its consolidated financial statements and disclosures related to leasing activities. The Company plans to adopt ASU 2016-02 effective January 1, 2019. The Company has made progress in implementing the new standard by selecting a lease accounting system and assessing available practical expedients. The Company is in the process of accumulating and processing the data required to measure its existing leases and evaluating accounting policy and internal control changes to support management in the financial reporting and disclosure of leasing activities. See Note 18 to the audited consolidated financial statements for the year ended December 31, 2017, included in the Company’s Annual Report on Form 10-K for additional information about the Company’s leases, including the future minimum lease payments of the Company's operating leases at December 31, 2017.

Other accounting standard updates effective for interim and annual periods beginning after December 31, 2018 are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

5. Acquisitions, Divestitures and Discontinued Operations

Business Acquisitions

The Company continually evaluates potential acquisitions that either strategically fit within the Company’s existing portfolio or expand the Company’s portfolio into new product lines or adjacent markets. The Company has completed a number of acquisitions that have been accounted for as business combinations and have resulted in the recognition of goodwill in the Company’s financial statements. This goodwill includes the know-how of the assembled workforce, the ability of the workforce to further improve technology and product offerings and the expected cash flows resulting from these efforts. Goodwill may also include expected synergies resulting from the complementary strategic fit these businesses bring to existing operations. The business acquisitions discussed below are included in the Company’s results of operations from their respective dates of acquisition.

2018 *Business Acquisitions*

Applied Defense Solutions, Inc. (Applied Defense Solutions). On June 29, 2018, the Company acquired Applied Defense Solutions, Inc., renamed L3 ADS, Inc., for a purchase price of $53 million, which was financed with cash on hand. Applied Defense Solutions is a leading aerospace engineering, software development and space situational awareness company. The goodwill recognized for this business was $40 million, which was assigned to the Sensor Systems segment, and is not expected to be deductible for income tax purposes. The final purchase price is subject to customary adjustments for final working capital. The final purchase price allocation, which is expected to be completed in the fourth quarter of 2018, will be based on final appraisals and other analysis of fair values of acquired assets and liabilities. The Company does not expect that differences between the preliminary and final purchase price allocation will have a material impact on its results of operations or financial position.

Latitude Engineering, LLC (Latitude Engineering). On June 28, 2018, the Company acquired Latitude Engineering, LLC, renamed L3 Latitude Engineering, Inc., for a purchase price of $15 million, which was financed with cash on hand. The purchase price is subject to additional contingent consideration not to exceed $20 million, $15 million of which is based on Latitude Engineering’s post-acquisition financial performance for the four year period ended December 31, 2021, and the remaining $5 million is based on certain post-acquisition milestone achievements through December 31, 2020. Latitude Engineering is engaged in the design, manufacturing, integration, servicing, operation and support of hybrid quadrotor unmanned aerial systems. The Company recorded a $4 million liability on the acquisition date for the fair value of the contingent consideration. The goodwill recognized for this business was $14 million, which was assigned to the Electronic Systems segment and is expected to be deductible for income tax purposes. The final purchase price is subject to customary adjustments for final working capital. The final purchase price allocation, which is expected to be completed in the fourth quarter of 2018, will be based on final appraisals and other analysis of fair values of acquired assets and liabilities. The Company does not expect that differences between the preliminary and final purchase price allocation will have a material impact on its results of operations or financial position.

2017 *Business Acquisitions*

The final purchase price and final purchase price allocations for the 2017 acquisitions of Kigre, Inc. (Kigre), Escola De Aviacao Aerocondor, S.A. (G-Air) and Adaptive Methods, Inc. (Adaptive Methods) have been finalized as of the second quarter of 2018. The final purchase price allocations resulted in a $3 million increase to goodwill. The final purchase price for Doss Aviation, Inc. (Doss Aviation) is subject to customary adjustments for final working capital. The final purchase price allocation for Doss Aviation, which is expected to be completed in the third quarter of 2018, will be based on final analysis of fair values of acquired contracts and customer relationship intangible assets. The Company does not expect that differences between the preliminary and final purchase price allocation will have a material impact on its results of operations or financial position.

Business Acquisitions Announced After June 29, 2018

Azimuth Security and Linchpin Labs. On July 11, 2018, the Company entered into a definitive agreement to acquire Azimuth Security and Linchpin Labs, two information security businesses that significantly strengthen the Company's existing C^6ISR (Command, Control, Communications, Computers, Cyber-Defense and Combat Systems, and Intelligence, Surveillance and Reconnaissance) capabilities and create synergies to drive future growth in cyber and international markets. The combined purchase price for the two businesses was approximately AUD $270 million (approximately $200 million). The purchase price is subject to an upward adjustment of up to AUD $43 million (approximately $32 million), payable in L3 common stock, based on the combined company’s post-acquisition sales for each of the 12-month periods ending June 30, 2019 to 2021, which would be payable in 2019 to 2021. This transaction is anticipated to be completed during the second half of 2018, subject to customary closing conditions and regulatory approvals.

See Note 3 to the audited consolidated financial statements for the year ended December 31, 2017, included in the Company’s Annual Report on Form 10-K for additional information about the Company’s 2017 business acquisitions.

Unaudited Pro Forma Statements of Operations Data

The following unaudited pro forma Statements of Operations data present the combined results of the Company and its business acquisitions completed during the first half period ended June 29, 2018 and the year ended December 31, 2017, assuming that the business acquisitions completed during 2018 and 2017 had occurred on January 1, 2017 and January 1, 2016, respectively. The unaudited pro forma Statements of Operations data below include adjustments for additional amortization expense related to acquired intangible assets and depreciation assuming the 2018 and 2017 acquisitions had occurred on January 1, 2017 and January 1, 2016, respectively.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions, except per share data)			
Pro forma net sales	$ 2,592	$ 2,413	$ 4,973	$ 4,765
Pro forma income from continuing operations attributable to L3	$ 187	$ 189	$ 375	$ 343
Pro forma net income attributable to L3	$ 377	$ 201	$ 581	$ 366
Pro forma diluted earnings per share from continuing operations	$ 2.36	$ 2.38	$ 4.71	$ 4.32
Pro forma diluted earnings per share	$ 4.75	$ 2.53	$ 7.30	$ 4.61

The unaudited pro forma results disclosed in the table above are based on various assumptions and are not necessarily indicative of the results of operations that would have occurred had the Company completed these acquisitions on the dates indicated above.

Investments in Nonconsolidated Affiliates

Peak Nano Optics, LLC (Peak Nano). On February 6, 2018, the Company acquired a 25% interest in Peak Nano Optics, LLC, for a purchase price of $20 million. Peak Nano is a nanotechnology company, which allows for the design and manufacturing of polymer lenses for military, sporting and commercial optics applications using its nanolayer gradient refractive index (GRIN) technology. The purchase price is subject to a contingent payment of $30 million based upon Peak Nano meeting certain development milestones on or before August 5, 2018. The $6 million fair value of the contingent consideration liability was recorded on the investment date (See Note 16). The Company determined Peak Nano is a VIE as it did not have sufficient equity at risk to finance its activities. The Company, however, is not the primary beneficiary because it does not have the power to direct the activities that are most significant to the economic performance of Peak Nano. Accordingly, Peak Nano is accounted for under the equity method of accounting.

As of the acquisition date, the carrying amount of the investment was greater than the Company's equity in the underlying assets of Peak Nano due primarily to the difference in the carrying amount of the indefinite-lived amortizable intangible assets including goodwill and in-process research and development (IPR&D). The basis difference attributable to goodwill and IPR&D is $11 million and $13 million, respectively.

Additionally, the Company has a $5 million loan receivable from Peak Nano.

Business Divestitures

2018 Divestitures

As discussed in Note 1, on June 29, 2018, the Company completed the sale of its Crestview & TCS Businesses. The assets and liabilities of the Crestview & TCS Businesses are classified as held for sale in the Company’s audited consolidated balance sheet as of December 31, 2017. The Crestview & TCS Businesses, which were within the Company’s Aerospace Segment, primarily provided aircraft fabrication and assembly of fixed and rotary wing aero structures as well as avionics hardware and software systems to address mission critical needs. The table below presents Crestview & TCS Businesses’ results of operations and is included in continuing operations.

	First Half Ended June 29, 2018 (in millions)
Net Sales	$ 64
Gain on sale of businesses	$ 48
Income from continuing operations before income taxes	$ 3

Crestview & TCS Businesses. The major classes of assets and liabilities included as held for sale related to the Crestview & TCS Businesses are presented in the table below.

	December 31, 2017
	(in millions)
Assets	
Billed receivables	$ 14
Contracts in process	33
Total current assets	47
Property, plant and equipment, net	34
Goodwill	52
Identifiable intangible assets	2
Total assets classified as held for sale	$ 135
Liabilities	
Accounts payable, trade	$ 3
Accrued employment costs	2
Accrued expenses	3
Other current liabilities	5
Total current liabilities	13
Deferred income taxes	4
Total liabilities classified as held for sale	$ 17

Discontinued Operations

Vertex Aerospace. As discussed in Note 1, on June 29, 2018, the Company completed the sale of its Vertex Aerospace business. The table below presents the statements of operations data for Vertex Aerospace. The amounts presented in discontinued operations include allocated interest expenses for debt not directly attributable or related to L3's other operations. Interest expense was allocated in accordance with the accounting standards for discontinued operations and were based on the ratio of Vertex Aerospace's net assets to the sum of: (1) L3 consolidated total net assets and (2) L3 consolidated total debt.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions)			
Net sales	$ 226	$ 351	$ 597	$ 703
Operating costs and expenses [(1)]	(212)	(332)	(561)	(667)
Operating income from discontinued operations	14	19	36	36
Interest expense allocated to discontinued operations	—	—	(1)	(1)
Gain on sale of businesses	237	—	237	—
Income from discontinued operations before income taxes	251	19	272	35
Income tax expense	(61)	(7)	(66)	(12)
Income from discontinued operations, net of income taxes	$ 190	$ 12	$ 206	$ 23

(1) For the quarterly and first half periods ended June 29, 2018, the Company recognized $3 million of trailing expenses related to the sale of NSS.

The major classes of assets and liabilities that were included in discontinued operations related to Vertex Aerospace are presented in the table below. These balances were classified as current at December 31, 2017 as the sale was expected to be completed within one year and the proceeds are not expected to be used to pay down long-term debt.

	December 31, 2017
	(in millions)
Assets	
Current assets	$ 284
Property, plant and equipment, net	13
Other intangible assets	7
Other assets	2
Total assets of discontinued operations	$ 306
Liabilities	
Accounts payable, trade	$ 63
Other current liabilities	131
Current liabilities	194
Long-term liabilities	32
Total liabilities of discontinued operations	$ 226

2017 Divestitures

During the first half period ended June 30, 2017, the Company completed the sales of the CTC Aviation Jet Services Limited (Aviation Jet Services) business, the L3 Coleman Aerospace (Coleman) business and the Display Product Line. The table below presents pre-tax (loss) gain recognized, the proceeds received and net sales included in continuing operations from these divestitures.

	First Half Ended June 30, 2017		
	Pre-Tax (Loss) gain	Proceeds Received	Net Sales
	(in millions)		
Aviation Jet Services divestiture	$ (5)	$ 1	$ 1
Coleman divestiture	(3)	17	9
Display Product Line divestiture	4	7	—
Total	$ (4)	$ 25	$ 10

Aviation Jet Services Divestiture. On March 1, 2017, the Company divested its Aviation Jet Services business for a sales price of £1 million (approximately $1 million). Aviation Jet Services provided non-core aircraft management and operational services as part of commercial training solutions based in the United Kingdom and was included in the Electronic Systems segment.

Coleman Divestiture. On February 24, 2017, the Company divested its Coleman business for a sales price of $15 million. Coleman provided air-launch ballistic missile targets and was included in the Electronic Systems segment.

Display Product Line Divestiture. On February 23, 2017, the Company divested its Display Product Line for a sales price of $7 million. The Display Product Line provided cockpits to various military aircraft and was included in the Electronic Systems segment.

Net sales and income before income taxes for Aviation Jet Services, Coleman and the Display Product Line, included in L3's consolidated statements of operations, are presented in the table below on an aggregate basis and are included in income from continuing operations for all periods presented.

	First Half Ended June 30, 2017
	(in millions)
Net sales	$ 10
Income before income taxes	$ 2

6. Contract Assets and Contract Liabilities

Contract assets represent accumulated incurred costs and earned profits on contracts with customers that have been recorded as sales but have not been billed to customers and are classified as current. Contract liabilities consist of advance payments and billings in excess of costs incurred and deferred revenue and represent amounts received in excess of sales recognized on contracts. The Company classifies advance payments and billings in excess of costs incurred as current and deferred revenue as current or non-current based on the expected timing of sales recognition. Contract assets and contract liabilities are determined on a contract by contract basis at the end of each reporting period. The non-current portion of contract liabilities is included in other liabilities in the Company's consolidated balance sheets (see Note 10).

The table below presents the components of net contract assets (liabilities).

	June 29, 2018	January 1, 2018
	(in millions)	
Contract assets	$ 1,611	$ 1,349
Contract liabilities — current	(554)	(565)
Contract liabilities — non-current	(33)	(28)
Net contract assets (liabilities)	$ 1,024	$ 756

Net contract assets (liabilities) increased from January 1, 2018 to June 29, 2018, primarily due to sales exceeding billings due to contractual billing terms on U.S. Government contracts related to Link Training & Simulation, Space & Power Systems, Advanced Communications and Mission Integration. Contract assets increased by $262 million primarily due to the same factors as discussed above. Contract liabilities decreased by $6 million primarily due to advances received by Mission Integration for aircraft procurements related to U.S. and foreign government contracts during the first half period ended June 29, 2018.

The Company did not recognize any impairment losses on contract assets during the quarterly and first half periods ended June 29, 2018.

For the first half period ended June 29, 2018, the Company recognized sales of $351 million related to its contract liabilities at January 1, 2018.

The components of contract assets are presented in the table below.

	June 29, 2018	January 1, 2018
	(in millions)	
Unbilled contract receivables, gross	$ 2,643	$ 2,232
Unliquidated progress payments and advances	(1,032)	(883)
Total contract assets	$ 1,611	$ 1,349

7. Contracts in Process

The components of contracts in process are presented in the table below.

	December 31, 2017
	(in millions)
Unbilled contract receivables, gross	$ 1,874
Unliquidated progress payments	(761)
Unbilled contract receivables, net	1,113
Inventoried contract costs, gross	891
Unliquidated progress payments	(71)
Inventoried contract costs, net	820
Total contracts in process	$ 1,933

The table below presents a summary of G&A, IRAD and B&P costs included in inventoried contract costs and the changes to them, including amounts charged to operating costs and expenses by the Company’s U.S. Government contractor businesses for the quarterly and first half periods ended June 30, 2017.

	Second Quarter Ended June 30, 2017	First Half Ended June 30, 2017
	(in millions)	
Amounts included in inventoried contract costs at beginning of the period	$ 177	$ 173
Contract costs incurred:		
IRAD and B&P	78	154
Other G&A	199	399
Total	277	553
Amounts charged to operating costs and expenses	(280)	(552)
Amounts included in inventoried contract costs at end of the period	$ 174	$ 174

8. Inventories

Inventories at Lower of Cost or Realizable Value. The table below presents the components of inventories at the lower of cost (first-in, first-out or average cost) or realizable value. The Company's inventories at December 31, 2017 were comprised primarily of amounts related to standard products. In addition, the Company classified inventories related to contracts for complex aerospace and electronic equipment and engineering and technical services according to the customers' specifications as inventoried contract costs, which was a component of contracts in process on the consolidated balance sheet at December 31, 2017. See Note 7 for additional information. In accordance with ASC 606, all inventories that customers do not currently control are classified within inventories on the Company's consolidated balance sheet at June 29, 2018, without regard to whether the goods promised to the customer are standard or customized.

	June 29, 2018	December 31, 2017
	(in millions)	
Raw materials, components and sub-assemblies	$ 318	$ 184
Work in process	430	98
Finished goods	186	107
Total	$ 934	$ 389

Inventories at June 29, 2018 included G&A costs of $62 million. G&A costs incurred and recorded in inventories totaled $597 million during the first half period ended June 29, 2018, and G&A costs charged to expense from inventories totaled $585 million during the first half period ended June 29, 2018. See Note 7 for information on G&A costs included in contracts in process for the quarterly and first half periods ended June 30, 2017.

9. Goodwill and Identifiable Intangible Assets

Goodwill. In accordance with the accounting standards for business combinations, the Company records 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). The table below presents the changes in goodwill allocated to the Company's reporting units in each reportable segment.

	Electronic Systems	Aerospace Systems	Communication Systems	Sensor Systems	Consolidated Total
			(in millions)		
Goodwill	$ 2,856	$ 1,146	$ 1,058	$ 1,659	$ 6,719
Accumulated impairment losses	(43)	—	(35)	(26)	(104)
December 31, 2017	2,813	1,146	1,023	1,633	6,615
Business acquisitions [(1)]	16	—	—	43	59
Foreign currency translation adjustments	(15)	(3)	—	(5)	(23)
June 29, 2018	2,814	1,143	1,023	1,671	6,651
Goodwill	2,857	1,143	1,058	1,697	6,755
Accumulated impairment losses	(43)	—	(35)	(26)	(104)
	$ 2,814	$ 1,143	$ 1,023	$ 1,671	$ 6,651

(1) The increase for the Electronic Systems segment was due to the acquisition of the Latitude Engineering business and the purchase price allocation adjustments for the Doss Aviation and G-Air business acquisitions. The increase for the Sensor Systems segment was due to the acquisition of the Applied Defense Solutions business and the purchase price allocation adjustments for the Adaptive Methods and Kigre business acquisitions.

Identifiable Intangible Assets. The most significant identifiable intangible asset that is separately recognized for the Company's business acquisitions is customer contractual relationships. All of the Company's 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 for working capital) arising from the follow-on sales on contract (revenue arrangement) renewals expected from the customer contractual relationships over their estimated lives, including the probability of expected future contract renewals and sales, less a contributory assets charge, all of which is discounted to present value. The Company's indefinite-lived intangible assets include IPR&D.

The table below presents information for the Company's identifiable intangible assets that are subject to amortization and indefinite-lived intangible assets.

		June 29, 2018			December 31, 2017		
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
	(in years)			(in millions)			
Customer contractual relationships	15	$ 406	$ 273	$ 133	$ 393	$ 257	$ 136
Technology	10	190	121	69	189	114	75
Other	14	34	14	20	29	14	15
Total subject to amortization		630	408	222	611	385	226
IPR&D	indefinite	66	—	66	66	—	66
Total		$ 696	$ 408	$ 288	$ 677	$ 385	$ 292

The table below presents amortization expense recorded by the Company for its identifiable intangible assets.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions)			
Amortization expense	$ 11	$ 10	22	20

Based on gross carrying amounts at June 29, 2018, the Company's estimate of amortization expense for identifiable intangible assets for the years ending December 31, 2018 through 2022 is presented in the table below.

	Year Ending December 31,				
	2018	2019	2020	2021	2022
	(in millions)				
Estimated amortization expense	$ 44	$ 42	$ 33	$ 27	$ 23

10. Other Current Liabilities and Other Liabilities

The table below presents the components of other current liabilities.

	June 29, 2018	December 31, 2017
	(in millions)	
Other Current Liabilities:		
Accrued product warranty costs	$ 75	$ 69
Estimated costs in excess of estimated contract value to complete contracts in process in a loss position	55	63
Accrued interest	28	43
Estimated contingent purchase price payable for acquired businesses and other investments (see Note 16)	17	11
Deferred revenues	—	38
Other	163	143
Total other current liabilities	$ 338	$ 367

The table below presents the components of other liabilities.

	June 29, 2018	December 31, 2017
	(in millions)	
Other Liabilities:		
Non-current income taxes payable (see Note 12)	$ 179	$ 164
Deferred compensation	53	49
Contract liabilities (see Note 6)	33	—
Accrued workers' compensation	24	23
Accrued product warranty costs	23	30
Notes payable and capital lease obligations	19	16
Estimated contingent purchase price payable for acquired businesses (see Note 16)	10	20
Deferred revenues	—	19
Other	75	77
Total other liabilities	$ 416	$ 398

The table below presents the changes in the Company's accrued product warranty costs.

	First Half Ended	
	June 29, 2018	June 30, 2017
	(in millions)	
Accrued product warranty costs:		
Balance at January 1	$ 99	$ 109
Acquisitions during the period	—	3
Accruals for product warranties issued during the period	25	22
Changes to accruals for product warranties existing before January 1	1	—
Settlements made during the period	(26)	(29)
Foreign currency translation adjustments	(1)	1
Balance at end of period	$ 98	$ 106

11. Debt

The components of debt and a reconciliation to the carrying amount of current and long-term debt are presented in the table below.

	June 29, 2018	December 31, 2017
	(in millions)	
Borrowings under Revolving Credit Facility (1)	$ —	$ —
5.20% Senior Notes due 2019	317	1,000
4.75% Senior Notes due 2020	265	800
4.95% Senior Notes due 2021	650	650
3.85% Senior Notes due 2023	800	—
3.95% Senior Notes due 2024	350	350
3.85% Senior Notes due 2026	550	550
4.40% Senior Notes due 2028	1,000	—
Principal amount of long-term debt	3,932	3,350
Unamortized discounts	(8)	(7)
Deferred debt issue costs	(24)	(13)
Carrying amount of long-term debt	3,900	3,330
Current portion of long-term debt	(581)	—
Carrying amount of long-term debt, excluding current portion	$ 3,319	$ 3,330

(1) During the first half period ended June 29, 2018, L3's aggregate borrowings and repayments under the Credit Facility were $501 million. At June 29, 2018, L3 had the full availability of its $1 billion Credit Facility.

Issuance of Senior Notes

On June 6, 2018, L3 issued two series of senior notes, which are unsecured senior obligations of L3. The terms of each series of senior notes are presented in the table below.

Note	Date of Issuance	Amount Issued	Discount[1]	Net Cash Proceeds[2]	Effective Interest Rate	Redemption at Treasury Rate[3][4]
			(dollars in millions)			
3.85% Senior Notes due June 15, 2023 (the 2023 Notes)	June 6, 2018	$ 800	$ 2	$ 792	3.89%	20 bps
4.40% Senior Notes due June 15, 2028 (the 2028 Notes)	June 6, 2018	$ 1,000	$ 1	$ 990	4.41%	25 bps

(1) Bond discounts are recorded as a reduction to the principal amount of the notes and are amortized as interest expense over the term of the notes.

(2) The net cash proceeds of $1,782 million (after deduction of the discount, underwriting expenses and commissions and other related expenses) plus cash on hand were used to fund the concurrent cash tender offers (the Tender Offers) for any and all of $1 billion aggregate principal amount of 5.20% Senior Notes due October 15, 2019 (the 2019 Notes) and $800 million aggregate principal amount of 4.75% Senior Notes due July 15, 2020 (the 2020 Notes) and any related redemption of notes not tendered in the Tender Offers.

(3) The 2023 Notes may be redeemed at any time prior to May 15, 2023 (one month prior to maturity) and the 2028 Notes may be redeemed at any time prior to March 15, 2028 (three months prior to maturity), at the option of L3, in whole or in part, at a redemption price equal to the greater of: (i) 100% of the principal amount, or (ii) the present value of the remaining principal and interest payments discounted to the date of redemption, on a semi-annual basis, at the Treasury Rate (as defined in the indentures governing the senior notes), plus the spread indicated in the table above. In addition, if the 2023 Notes and the 2028 Notes are redeemed at any time on or after May 15, 2023 and March 15, 2028, respectively, the redemption price would be equal to 100% of the principal amount.

(4) Upon the occurrence of a change in control (as defined in the indentures governing the senior notes), each holder of the notes will have the right to require L3 to repurchase all or any part of such holder's notes at an offer price in cash equal to 101% of the aggregate principal amount plus accrued and unpaid interest, if any, to the date of purchase.

Repurchases and Redemptions of Senior Notes

The table below summarizes the 2019 Notes and the 2020 Notes Tender Offers.

Note	Settlement Type	Date Settled	Aggregate Principal	Principal Tendered	Tender Premium	Cash Tendered[1]	Interest	Total Cash Payments	Debt Retirement Charge[2]
						(dollars in millions)			
5.20% Senior Notes due 2019	Tender Offer	June 6, 2018	$ 1,000	$ 683	103.282%	$ 705	$ 5	$ 710	$ 24
4.75% Senior Notes due 2020	Tender Offer	June 6, 2018	$ 800	$ 535	104.092%	$ 557	$ 10	$ 567	$ 24

(1) Excludes $1 million of tender offer fees.

(2) The debt retirement charge includes $1 million of tender offer fees and $3 million which represents the non-cash retirement of associated unamortized debt issue costs and discounts.

On June 6, 2018, the Company initiated the redemption of the 2019 Notes and the 2020 Notes that remained outstanding subsequent to the expiration of the Tender Offers. On July 6, 2018, the Company completed the redemption of the 2019 Notes and the 2020 Notes. The terms of the 2019 Notes and the 2020 Notes redemption are presented in the table below.

Note	Settlement Type	Date Settled	Principal Redeemed	Redemption Premium	Cash Payments	Interest	Total Cash Payments	Debt Retirement Charge[1]
					(dollars in millions)			
5.20% Senior Notes due 2019	Redemption	July 6, 2018	$ 317	103.048%	$ 327	$ 4	$ 331	$ 10
4.75% Senior Notes due 2020	Redemption	July 6, 2018	$ 265	103.818%	$ 275	$ 6	$ 281	$ 11

(1) The debt retirement charge includes $1 million which represents the non-cash retirement of associated unamortized debt issue costs and discounts.

Guarantees. The borrowings under the Credit Facility are fully and unconditionally guaranteed by L3 and by substantially all of the material 100% owned domestic subsidiaries of L3 on an unsecured senior basis. The payment of principal and premium, if any, and interest on the senior notes is fully and unconditionally guaranteed, jointly and severally, by L3's material 100% owned domestic subsidiaries that guarantee any of its other indebtedness. The guarantees of the Credit Facility and the senior notes rank pari passu with each other.

12. Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. Federal jurisdiction, which is the Company's primary tax jurisdiction, and various state and foreign jurisdictions. At June 29, 2018, the statutes of limitations for the Company's U.S. Federal income tax returns for the years ended December 31, 2012 through 2016 were open. The U.S. Internal Revenue Service (IRS) is auditing the Company's U.S. Federal income tax returns for the years ended 2012 and 2013. The Company expects the audits to conclude within the next 12 months. The Company cannot predict the outcome of the audits at this time.

The U.S. Government enacted U.S. Tax Reform on December 22, 2017, which made significant changes to the U.S. tax system. Significant changes under U.S. Tax Reform included, among other things, the reduction of the U.S. corporate income tax rate from 35% to 21%, the implementation of a modified territorial tax system and the imposition of a one-time repatriation tax on deemed repatriated earnings and profits of U.S. owned foreign subsidiaries (Toll Charge). As a result, the Company recorded an estimated tax benefit (Preliminary Net Tax Benefit) from U.S. Tax Reform in its consolidated financial statements for the year ended December 31, 2017. The Company did not record any change to the Preliminary Net Tax Benefit on the unaudited condensed consolidated financial statements for the quarterly and first half periods ended June 29, 2018. The Preliminary Net Tax Benefit ultimately recorded may differ in the future due principally to changes to the interpretations of U.S. Tax Reform, legislative action to clarify the interpretation of U.S. Tax Reform and changes to estimates the Company has utilized to calculate the tax benefit. The Company expects to finalize the tax benefit from U.S. Tax Reform with the filing of its tax return and at that time will record the difference between the final benefit and the Preliminary Net Tax Benefit previously recorded, if any, in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*. Additionally, the Company is still evaluating the Global Intangible Low-Taxed Income (GILTI) provisions enacted under U.S. Tax Reform, and the associated election to record its effects as a period cost or as a component of deferred taxes.

The effective income tax rate for the quarterly period ended June 29, 2018 was 20.3%. Excluding the sale of the Crestview & TCS Businesses, the debt retirement charge and the related income tax impacts of each, the effective income tax rate would have decreased to 15.6% from 23.2% for the quarterly period ended June 30, 2017. The decrease was primarily driven by an increase in tax benefits from equity compensation and the reduction of the U.S. corporate income tax rate enacted under U.S. Tax Reform.

The effective income tax rate for the first half period ended June 29, 2018 was 15.9%. Excluding the sale of the Crestview & TCS Businesses, the debt retirement charge and the related income tax impacts of each, the effective income tax rate would have decreased to 13.5% from 22.3% for the same period last year. The decrease was primarily driven by trends similar to the quarterly period ended June 29, 2018.

At June 29, 2018, the Company anticipates that unrecognized tax benefits will decrease by approximately $44 million over the next 12 months due to the potential resolution of unrecognized tax benefits involving several jurisdictions and tax periods. The actual amount of the decrease over the next 12 months could vary significantly depending on the ultimate timing and nature of any settlements.

Current and non-current income taxes payable include accrued potential interest of $17 million ($13 million after income taxes) at June 29, 2018 and $15 million ($11 million after income taxes) at December 31, 2017, and potential penalties of $9 million at June 29, 2018 and $8 million at December 31, 2017.

13. Accumulated Other Comprehensive (Loss) Income (AOCI)

The changes in the AOCI balances, including amounts reclassified from AOCI into net income, are presented in the table below.

	Foreign currency translation	Unrealized gains (losses) on hedging instruments	Unrecognized (losses) gains and prior service cost, net	Total accumulated other comprehensive loss
	(in millions)			
Balance at December 31, 2017	$ (54)	$ 9	$ (646)	$ (691)
Other comprehensive loss before reclassifications, net of tax	(39)	(10)	—	(49)
Amounts reclassified from AOCI, net of tax	—	(1)	27	26
Net current period other comprehensive (loss) income	(39)	(11)	27	(23)
Balance at June 29, 2018	$ (93)	$ (2)	$ (619)	$ (714)
Balance at December 31, 2016	$ (178)	$ 6	$ (554)	$ (726)
Other comprehensive income before reclassifications, net of tax	71	1	—	72
Amounts reclassified from AOCI, net of tax	—	(1)	19	18
Net current period other comprehensive income	71	—	19	90
Balance at June 30, 2017	$ (107)	$ 6	$ (535)	$ (636)

Further details regarding the amounts reclassified from AOCI into net income are presented in the table below.

	Amount Reclassified from AOCI [(a)]				
	Second Quarter Ended		First Half Ended		
Details About AOCI Components	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017	Affected Line Item in the Unaudited Condensed Consolidated Statements of Operations
	(in millions)				
Gain on hedging instruments	$ —	$ 1	$ 1	$ 1	Income from continuing operations before income taxes
	$ —	$ 1	$ 1	$ 1	Income from continuing operations
Amortization of defined benefit pension and postretirement items:					
Net loss [(b)]	$ (17)	$ (15)	$ (35)	$ (30)	Income from continuing operations before income taxes
	4	5	8	11	Provision for income taxes
	$ (13)	$ (10)	$ (27)	$ (19)	Income from continuing operations
Total reclassification for the period	$ (13)	$ (9)	$ (26)	$ (18)	Income from continuing operations

(a) Amounts in parenthesis indicate charges to the unaudited condensed consolidated statements of operations.
(b) Amounts related to pension and postretirement benefit plans were reclassified from AOCI and recorded as a component of net periodic benefit cost (see Note 20 for additional information).

14. Equity

On May 8, 2017, L3’s Board of Directors approved a share repurchase program that authorizes L3 to repurchase up to an additional $1.5 billion of its common stock. The program became effective on July 1, 2017 and has no set expiration date. Repurchases of L3’s common stock are made from time to time at management’s discretion in accordance with applicable U.S. Federal securities laws. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including, but not limited to, the Company’s financial position, earnings, legal requirements, other investment opportunities (including acquisitions) and market conditions. L3 repurchased 1,459,417 shares of its common stock at an average price of $196.97 per share for an aggregate amount of $287 million from January 1, 2018 through June 29, 2018. All share repurchases of L3’s common stock have been recorded as treasury shares.

From June 30, 2018 through July 20, 2018, L3 repurchased 172,082 shares of its common stock at an average price of $193.85 per share for an aggregate amount of approximately $34 million.

On May 8, 2018, L3's Board of Directors declared a quarterly cash dividend of $0.80 per share, paid on June 15, 2018 to shareholders of record at the close of business on May 18, 2018. During the first half period ended June 29, 2018, the Company paid $128 million of cash dividends, including a $2 million net reduction of previously accrued dividends for employee-held stock awards.

On July 10, 2018, L3's Board of Directors declared a quarterly cash dividend of $0.80 per share, payable on September 17, 2018 to shareholders of record at the close of business on August 17, 2018.

15. L3's Earnings Per Share

A reconciliation of basic and diluted Earnings Per Share (EPS) is presented in the table below.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions, except per share data)			
Reconciliation of net income:				
Net income	$ 379	$ 207	$ 587	$ 375
Net income from continuing operations attributable to noncontrolling interests	(4)	(5)	(9)	(9)
Net income attributable to L3's common shareholders	$ 375	$ 202	$ 578	$ 366
Earnings attributable to L3's common shareholders:				
Continuing operations	$ 185	$ 190	$ 372	$ 343
Discontinued operations, net of income tax	190	12	206	23
Net income attributable to L3's common shareholders	$ 375	$ 202	$ 578	$ 366
Earnings per share attributable to L3's common shareholders:				
Basic:				
Weighted average common shares outstanding	78.4	78.0	78.3	77.8
Basic earnings per share:				
Continuing operations	$ 2.36	$ 2.44	$ 4.75	$ 4.40
Discontinued operations, net of income tax	2.42	0.15	2.63	0.30
Net income	$ 4.78	$ 2.59	$ 7.38	$ 4.70
Diluted:				
Common and potential common shares:				
Weighted average common shares outstanding	78.4	78.0	78.3	77.8
Effect of dilutive securities	1.0	1.5	1.3	1.6
Common and potential common shares	79.4	79.5	79.6	79.4
Diluted earnings per share:				
Continuing operations	$ 2.33	$ 2.39	$ 4.67	$ 4.32
Discontinued operations, net of income tax	2.39	0.15	2.59	0.29
Net income	$ 4.72	$ 2.54	$ 7.26	$ 4.61

The computation of diluted EPS excludes 0.3 million shares for each of the quarterly and first half periods ended June 29, 2018 and 0.4 million shares and 0.3 million shares for the quarterly and first half periods ended June 30, 2017, respectively, for share-based payment awards as they were anti-dilutive.

16. Fair Value Measurements

Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants. The standards establish a fair value hierarchy that gives the highest priority to observable inputs and the lowest priority to unobservable inputs.

The following table presents the fair value hierarchy level for each of the Company's assets and liabilities that are measured and recorded at fair value on a recurring basis.

	June 29, 2018			December 31, 2017		
Description	**Level 1 (1)**	**Level 2 (2)**	**Level 3 (3)**	**Level 1 (1)**	**Level 2 (2)**	**Level 3 (3)**
			(in millions)			
Assets						
Cash equivalents	$ 955	$ —	$ —	$ 310	$ —	$ —
Derivatives (foreign currency forward contracts)	—	3	—	—	11	—
Total assets	$ 955	$ 3	$ —	$ 310	$ 11	$ —
Liabilities						
Derivatives (foreign currency forward contracts)	$ —	$ 8	$ —	$ —	$ 1	$ —
Contingent consideration	—	—	27	—	—	31
Total liabilities	$ —	$ 8	$ 27	$ —	$ 1	$ 31

(1) Level 1 is based on quoted market prices available in active markets for identical assets or liabilities as of the reporting date. Cash equivalents are primarily held in registered money market funds, which are valued using quoted market prices.

(2) Level 2 is based on pricing inputs other than quoted prices in active markets, which are either directly or indirectly observable. The fair value is determined using a valuation model based on observable market inputs, including quoted foreign currency forward exchange rates and consideration of non-performance risk.

(3) Level 3 is based on pricing inputs that are not observable and not corroborated by market data.

The contingent consideration liabilities represent the future potential earn-out payments relating to the acquisitions of MacDonald Humfrey (Automation) Limited, renamed L3 MacDonald Humfrey (MacH), on November 22, 2016, Open Water Power, Inc., renamed L3 Open Water Power, Inc. (Open Water Power), on May 19, 2017 and Latitude Engineering, LLC, renamed L3 Latitude Engineering, Inc. (Latitude Engineering) on June 28, 2018 and achieving certain milestones related to the Peak Nano investment. The fair value of the MacH contingent consideration liability, and a portion of the Latitude Engineering contingent consideration liability is based on a Monte Carlo Simulation of the aggregate revenue of MacH for the three-year period ending December 31, 2019, and the aggregate revenue of Latitude Engineering as of each year within the four-year period ended December 31, 2021. The significant unobservable inputs used in calculating the fair value of the MacH contingent consideration and a portion of the Latitude Engineering contingent consideration include: (i) projected revenues of the acquired businesses, (ii) company specific risk premium, which is a component of the discount rate applied to the revenue projections and (iii) volatility. The fair value of the Open Water Power contingent consideration liability and a portion of the Latitude Engineering contingent consideration liability is based on the Scenario-Based Method of the income approach using post-acquisition milestone achievements of Open Water Power and Latitude Engineering through December 31, 2020. The significant unobservable inputs used in calculating the fair value of the Open Water Power contingent consideration and a portion of the Latitude Engineering contingent consideration include: (i) timing of achieving the milestones associated with the contingent consideration arrangement, (ii) probabilities of achieving each milestone and (iii) discount rate. The fair value of the contingent consideration for potential earn-out payments is reassessed quarterly, including an analysis of the significant inputs used in the evaluation, as well as the accretion of the present value discount. Changes are reflected within operating costs and expenses in the unaudited condensed consolidated statements of operations.

The Peak Nano contingent consideration liability was recorded at fair value on the acquisition date based on a probability assessment of the likelihood of achieving certain development milestones on or before August 5, 2018. The fair value of the contingent consideration liability is reassessed quarterly and changes are reflected within interest and other income, net, in the unaudited condensed consolidated statements of operations.

The table below presents the changes to contingent consideration obligations during the first half period ended June 29, 2018.

	June 29, 2018 (in millions)
Balance at beginning of period	$ 31
Acquisitions and investments	10
Cash payments	(2)
Changes in fair value of contingent consideration, net	(12)
Balance at end of period	$ 27

17. Financial Instruments

At June 29, 2018 and December 31, 2017, the Company’s financial instruments consisted primarily of cash and cash equivalents, billed receivables, trade accounts payable, senior notes and foreign currency forward contracts. The carrying amounts of cash and cash equivalents, billed receivables and trade accounts payable are representative of their respective fair values because of the short-term maturities or the expected settlement dates of these instruments. The carrying amounts and estimated fair values of the Company’s other financial instruments are presented in the table below.

	June 29, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Senior notes [1]	$ 3,900	$ 3,944	$ 3,330	$ 3,502
Foreign currency forward contracts [2]	$ (5)	$ (5)	$ 10	$ 10

(1) The Company measures the fair value of its senior notes using Level 2 inputs based primarily on current market yields for its existing debt traded in the secondary market.

(2) The Company measures the fair values of foreign currency forward contracts based on forward exchange rates. See Note 18 for additional disclosures regarding the notional amounts and fair values of foreign currency forward contracts.

18. Derivative Financial Instruments

The Company's derivative financial instruments include foreign currency forward contracts, which are entered into for risk management purposes, as well as the Peak Nano contingent consideration liability. See Note 16 for further information on the contingent consideration liability.

Foreign Currency Forward Contracts. The Company's 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, the Company enters into foreign currency forward contracts. The Company's activities involving foreign currency forward contracts are designed to hedge the changes in the functional currency equivalent cash flows due to movements in foreign exchange rates compared to the functional currency. The foreign currencies hedged are primarily the Canadian dollar, the U.S. dollar, the Euro, the United Arab Emirates dirham, the British pound and the New Zealand dollar. The Company manages exposure to counterparty non-performance credit risk by entering into foreign currency forward contracts only with major financial institutions that are expected to fully perform under the terms of such contracts. Foreign currency forward contracts are recorded in the Company's condensed consolidated balance sheets at fair value and are generally designated and accounted for as cash flow hedges in accordance with the accounting standards for derivative instruments and hedging activities. Gains and losses on designated foreign currency forward contracts that are highly effective in offsetting the corresponding change in the cash flows of the hedged transactions are recorded net of income taxes in AOCI and then recognized in income when the underlying hedged transaction affects income. Gains and losses on foreign currency forward contracts that do not meet hedge accounting criteria are recognized in income immediately. Notional amounts are used to measure the volume of foreign currency forward contracts and do not represent exposure to foreign currency losses. The table below presents the notional amounts of the Company's outstanding foreign currency forward contracts by currency at June 29, 2018.

Currency	Notional Amounts (in millions)
Canadian dollar	$ 183
U.S. dollar	145
Euro	80
United Arab Emirates dirham	12
British pound	11
New Zealand dollar	7
Total	$ 438

At June 29, 2018, the Company's foreign currency forward contracts had maturities through 2023.

The table below presents the location of the Company's derivative instruments recorded at fair value on the condensed consolidated balance sheets.

	June 29, 2018				December 31, 2017			
	Other Current Assets	Other Assets	Other Current Liabilities	Other Liabilities	Other Current Assets	Other Assets	Other Current Liabilities	Other Liabilities
	(in millions)							
Derivatives designated as hedging instruments:								
Foreign currency forward contracts [(1)]	$ 3	$ —	$ 6	$ 2	$ 11	$ —	$ 1	$ —
Derivatives not designated as hedging instruments:								
Contingent consideration [(2)]	—	—	6	—	—	—	—	—
Total derivative instruments	$ 3	$ —	$ 12	$ 2	$ 11	$ —	$ 1	$ —

(1) See Note 16 for a description of the fair value hierarchy related to the Company's foreign currency forward contracts.
(2) See Note 16 for additional information on Peak Nano contingent consideration liability.

The effects from foreign currency forward contracts on the unaudited condensed consolidated statements of operations were a pre-tax gain of $1 million for the quarterly period ended June 30, 2017 and pre-tax gains of $1 million for each of the first half periods ended June 29, 2018 and June 30, 2017. At June 29, 2018, the estimated net amount of existing losses that are expected to be reclassified into income within the next 12 months was $5 million.

19. Commitments and Contingencies

Procurement Regulations

A substantial majority of the Company's revenues are generated from providing products and services under legally binding agreements or contracts with the U.S. Government, foreign government customers and state and local governments. 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. The Company is currently cooperating with the U.S. Government on several investigations from which civil, criminal or administrative proceedings have or could result and give rise to fines, penalties, compensatory and treble damages, restitution and/or forfeitures, including investigations into the pricing of certain contracts entered into by the Communication Systems segment. The Company does not currently anticipate that any of these investigations will have a material adverse effect, individually or in the aggregate, on its consolidated financial position, results of operations or cash flows. However, under U.S. Government regulations, an indictment of the Company by a federal grand jury, or an administrative finding against the Company as to its present responsibility to be a U.S. Government contractor or subcontractor, could result in the Company 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 the Company that satisfies the requisite level of seriousness, could result in debarment from contracting with the federal government for a specified term. In addition, all of the Company's U.S. Government contracts: (1) are subject to audit and various pricing and cost controls, (2) include standard provisions for termination for the convenience of the U.S. Government or for default and (3) are subject to cancellation if funds for contracts become unavailable. Foreign government contracts generally include comparable provisions relating to terminations for convenience or default, as well as other procurement clauses relevant to the foreign government.

Litigation Matters

The Company is also subject to litigation, proceedings, claims or assessments and various contingent liabilities incidental to its businesses, including the matter specified below. Furthermore, in connection with certain business acquisitions, the Company has assumed some or all claims against, and liabilities of, such acquired businesses, including both asserted and unasserted claims and liabilities.

In accordance with the accounting standard for contingencies, the Company records a liability when management believes that it is both probable that a liability has been incurred and the Company can reasonably estimate the amount of the loss. Generally, the loss is recorded at the amount the Company expects to resolve the liability. Amounts recoverable from insurance contracts or third parties are recorded as assets when deemed probable. At June 29, 2018, the Company recorded approximately $2 million of receivables for recoveries from insurance contracts or third parties in connection with the amount of liabilities recorded for pending and threatened litigation. Legal defense costs are expensed as incurred. The Company believes it has recorded adequate provisions for its litigation matters. The Company reviews these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. While it is reasonably possible that an unfavorable outcome may occur in the matter set forth below, unless otherwise stated, the Company believes that it is not probable that a loss has been incurred in such matter. With respect to any litigation matter below for which it is reasonably possible that an unfavorable outcome may occur, an estimate of loss or range of loss is disclosed when such amount or amounts can be reasonably estimated. Although the Company believes that it has valid defenses with respect to legal matters and investigations pending against it, the results of litigation can be difficult to predict, particularly those involving jury trials. Therefore, it is possible that any of the following or other contingencies could have a material impact on the financial position, results of operations or cash flows of the Company in future periods.

HVC Alkmaar. On July 23, 2014, a notice of claim was received by the Company's former JovyAtlas business unit. The notice relates to losses resulting from a fire that occurred at an HVC Alkmaar bio-energy plant on July 21, 2013. The notice states that the fire resulted from the failure of an uninterruptible power supply (UPS) to provide sufficient power to act as a back-up energy supply, alleges that JovyAtlas was the manufacturer and service provider for the UPS and claims €11 million in estimated property damages and €35 million in estimated business interruption damages. The Company has tendered the notice of claim to its insurance carriers.

20. Pension and Other Postretirement Benefits

The following table summarizes the components of net periodic benefit cost for the Company's pension and other postretirement benefit plans.

	Pension Plans				Postretirement Benefit Plans			
	Second Quarter Ended		First Half Ended		Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions)							
Components of net periodic benefit cost:								
Service cost	$ 26	$ 25	$ 52	$ 50	$ 1	$ —	$ 1	$ 1
Interest cost	36	36	72	71	1	1	2	2
Expected return on plan assets	(56)	(49)	(112)	(98)	(1)	(1)	(2)	(2)
Amortization of net loss (gains)	18	15	37	31	(1)	—	(2)	(1)
Net periodic benefit cost	$ 24	$ 27	$ 49	$ 54	$ —	$ —	$ (1)	$ —

The components of net periodic benefit cost other than the service cost component are included in interest and other income, net, in the unaudited condensed consolidated statements of operations. Service cost is included in operating costs and expenses in the unaudited condensed consolidated statements of operations.

Contributions. The Company contributed cash of $28 million to its pension plans and $3 million to its other postretirement benefit plans during the first half period ended June 29, 2018. The Company expects to contribute an additional $72 million to its pension plans and $7 million to its other postretirement benefit plans during the remainder of 2018.

21. Stock-Based Compensation

During the first half period ended June 29, 2018, the Company granted stock-based awards under the Amended and Restated 2008 Long Term Performance Plan in the form of stock options, restricted stock units and performance units. The stock-based compensation awards granted during the first half period ended June 29, 2018 are further discussed below.

Stock Options. The Company granted 201,041 stock options with a weighted average exercise price of $210.60 per option, which was equal to the closing price of L3's common stock on the date of grant. Options expire 10 years after the date of grant and vest ratably over a three-year period on the annual anniversary of the date of grant. The options granted to the Company's Chairman, Chief Executive Officer and President are also subject to performance-based vesting conditions. The weighted average grant date fair value for the options of $38.02 per option was estimated using the Black-Scholes option-pricing model. The weighted average assumptions used in the valuation model for this grant are presented in the table below.

Expected holding period (in years)	5.2
Expected volatility	19.8%
Expected dividend yield	1.8%
Risk-free interest rate	2.7%

Restricted Stock Units. The Company granted 246,342 restricted stock units with a weighted average grant date fair value of $210.39 per share. Restricted stock units typically vest three years after the grant date for employees and one year after the grant date for non-employee directors, or if earlier, on the date of the first annual stockholders meeting held after the grant date. The restricted stock units automatically convert into shares of L3's common stock upon vesting. The grant date fair value of the restricted stock unit awards is based on L3's closing stock price at the date of grant and is generally recognized as compensation expense on a straight-line basis over the vesting period. However, for employees who attain retirement eligibility status prior to the end of the three-year cliff vesting period and who have provided at least one year of service after the date of grant, compensation expense is recognized over the shorter period from the date of grant to the retirement eligibility date. For grants of restricted stock units made during the first half period ended June 29, 2018, retirement eligible employees are those employees that either: (1) have attained the age of 60 and completed at least five years of service (which service must be continuous through the date of termination except for a single break in service that does not exceed one year in length) or (2) have attained the age of 65 (without regard to their length of service at L3).

Performance Units. The Company granted 21,546 performance units with a weighted average grant date fair value per unit of $210.54. The final payout for these units is based on the achievement of pre-determined EPS goals established by the Compensation Committee of the Company’s Board of Directors for the three-year period ending December 31, 2020. Units earned can range from zero to 200% of the original number of units awarded, which are converted into shares of L3’s common stock.

22. Supplemental Cash Flow Information

	First Half Ended	
	June 29, 2018	June 30, 2017
	(in millions)	
Interest paid	$ 97	$ 83
Income tax payments	$ 54	$ 96
Income tax refunds	$ 3	$ 7

23. Segment Information

The Company has four reportable segments, which are described in Note 1. The Company evaluates the performance of its operating segments and reportable segments based on their sales, operating income and operating margin. Corporate expenses are allocated to the Company’s operating segments using an allocation methodology prescribed by U.S. Government regulations for government contractors. Accordingly, segment results include all costs and expenses, except for goodwill impairment charges and certain other items that are excluded by management for purposes of evaluating the operating performance of the Company’s business segments.

The tables below present net sales, operating income, depreciation and amortization and total assets by reportable segment.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions)			
Net Sales:				
Electronic Systems	$ 828	$ 789	$ 1,630	$ 1,549
Aerospace Systems	751	681	1,450	1,382
Communication Systems	563	555	1,062	1,098
Sensor Systems	482	394	894	748
Elimination of intercompany sales	(41)	(34)	(82)	(71)
Consolidated total	$ 2,583	$ 2,385	$ 4,954	$ 4,706
Operating Income:				
Electronic Systems	$ 113	$ 103	$ 221	$ 193
Aerospace Systems	61	56	118	112
Communication Systems	45	84	82	126
Sensor Systems	54	51	103	100
Segment total	273	294	524	531
Gain on sale of the Crestview & TCS Businesses	48	—	48	—
Consolidated total	$ 321	$ 294	$ 572	$ 531
Depreciation and amortization:				
Electronic Systems	$ 24	$ 17	$ 43	$ 35
Aerospace Systems	12	13	24	24
Communication Systems	11	12	24	24
Sensor Systems	13	12	25	23
Consolidated total	$ 60	$ 54	$ 116	$ 106

	June 29, 2018	December 31, 2017
	(in millions)	
Total Assets:		
Electronic Systems	$ 4,990	$ 4,796
Aerospace Systems	2,200	2,014
Communication Systems	2,142	2,063
Sensor Systems	2,890	2,706
Corporate	1,308	709
Assets held for sale	—	135
Assets of discontinued operations	—	306
Consolidated total	$ 13,530	$ 12,729

Disaggregation of Total Net Sales. The Company disaggregates its sales from contracts with customers by end customer, contract type, deliverable type and revenue recognition method for each of its segments, as the Company believes these factors affect the nature, amount, timing and uncertainty of the Company's revenue and cash flows.

Sales by End Customer. Direct sales to the end customer represented approximately 64% of the Company's consolidated sales for each of the quarterly and first half periods ended June 29, 2018, and indirect sales as a subcontractor or supplier represented the remaining 36%. The tables below present total net sales disaggregated by end customer.

	Second Quarter Ended June 29, 2018				
End Customer	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
			(in millions)		
Total DoD	$ 443	$ 624	$ 426	$ 240	$ 1,733
Other U.S. Government	40	7	24	22	93
Total U.S. Government	483	631	450	262	1,826
Foreign governments [(1)]	74	103	39	155	371
Commercial — foreign	177	6	25	14	222
Commercial — domestic	78	1	40	45	164
Total	$ 812	$ 741	$ 554	$ 476	$ 2,583

	First Half Ended June 29, 2018				
End Customer	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
			(in millions)		
Total DoD	$ 860	$ 1,192	$ 797	$ 446	$ 3,295
Other U.S. Government	79	12	48	47	186
Total U.S. Government	939	1,204	845	493	3,481
Foreign governments [(1)]	142	206	73	281	702
Commercial — foreign	344	14	46	35	439
Commercial — domestic	172	3	83	74	332
Total	$ 1,597	$ 1,427	$ 1,047	$ 883	$ 4,954

(1) Includes sales under foreign military sales agreements, which are made directly between the U.S. Government and foreign governments.

Sales by Contract Type. Generally, the sales price arrangements for the Company's contracts are either fixed-price, cost-plus or time-and-material type. Fixed-price type contracts generally offer higher profit margin potential than cost-plus type or time-and-material type contracts due to the greater levels of risk assumed on a fixed-price type contract.

On a fixed-price type contract, the Company agrees to perform the contractual statement of work for a predetermined sales price. On a cost-plus type contract, the Company is paid its 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 the customer. Cost-plus type contracts with award and incentive fee provisions are the Company's primary variable contract fee arrangement. On a time-and-material type contract, the Company is 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.

Substantially all of the Company's cost-plus type contracts and time-and-material type contracts are with U.S. Government customers, while sales to foreign government and commercial customers are generally transacted under fixed-price sales arrangements and are included in the Company's fixed-price contract type sales. The tables below present total net sales disaggregated by contract type.

	Second Quarter Ended June 29, 2018				
Contract Type	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
			(in millions)		
Fixed-price[1]	$ 680	$ 398	$ 403	$ 391	$ 1,872
Cost-plus[2]	118	292	133	83	626
Time-and-material	14	51	18	2	85
Total sales	$ 812	$ 741	$ 554	$ 476	$ 2,583

	First Half Ended June 29, 2018				
Contract Type	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
			(in millions)		
Fixed-price[1]	$ 1,344	$ 764	$ 732	$ 724	$ 3,564
Cost-plus[2]	226	561	281	154	1,222
Time-and-material	27	102	34	5	168
Total sales	$ 1,597	$ 1,427	$ 1,047	$ 883	$ 4,954

(1) Includes fixed-price incentive fee type contracts, which contributed approximately 1% to the Company's total net sales for quarterly period ended June 29, 2018 and 2% for the first half period ended June 29, 2018.

(2) Includes cost-plus award and incentive fee type contracts, which contributed approximately 4% to the Company's total net sales for each of the quarterly and first half periods ended June 29, 2018.

Sales by Deliverable Type: The tables below present total net sales disaggregated by the type of deliverable, which is determined by the Company at the performance obligation level.

	Second Quarter Ended June 29, 2018				
Sales by Deliverable Type	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
			(in millions)		
Products	$ 578	$ 405	$ 397	$ 406	$ 1,786
Services	234	336	157	70	797
Total sales	$ 812	$ 741	$ 554	$ 476	$ 2,583

	First Half Ended June 29, 2018				
Sales by Deliverable Type	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
			(in millions)		
Products	$ 1,138	$ 777	$ 761	$ 756	$ 3,432
Services	459	650	286	127	1,522
Total sales	$ 1,597	$ 1,427	$ 1,047	$ 883	$ 4,954

Revenue Recognition Method: The tables below present total net sales disaggregated based on the revenue recognition method applied.

	Second Quarter Ended June 29, 2018				
Revenue Recognition Method	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
	(in millions)				
Cost to cost method	$ 548	$ 713	$ 455	$ 226	$ 1,942
Point in time	175	11	76	222	484
Output method	71	1	5	11	88
Billing method	18	16	18	17	69
Total sales	$ 812	$ 741	$ 554	$ 476	$ 2,583

	First Half Ended June 29, 2018				
Revenue Recognition Method	**Electronic Systems**	**Aerospace Systems**	**Communication Systems**	**Sensor Systems**	**Consolidated L3**
	(in millions)				
Cost to cost method	$ 1,081	$ 1,379	$ 845	$ 439	$ 3,744
Point in time	369	13	153	381	916
Output method	122	1	12	27	162
Billing method	25	34	37	36	132
Total sales	$ 1,597	$ 1,427	$ 1,047	$ 883	$ 4,954

24. Severance and Restructuring Related Costs

Consistent with the Company’s strategy to continuously improve its cost structure and right-size its businesses, L3 is completing employment reduction actions across several of its businesses to reduce both direct and indirect costs, including overhead and general and administrative costs. As a result of these initiatives, the Company recorded a total of $6 million and $14 million of severance and restructuring related costs with respect to approximately 400 employees during the quarterly and first half periods ended June 29, 2018, respectively. During the year ended December 31, 2017, the Company recorded a total of $101 million of severance and restructuring related costs with respect to approximately 1,500 employees. Severance and restructuring related costs are reported within operating costs and expenses on the unaudited condensed consolidated statements of operations. Severance and restructuring related costs incurred by reportable segment are presented in the table below.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	**June 30, 2017**	**June 29, 2018**	**June 30, 2017**
	(in millions)			
Reportable Segment				
Electronic Systems	$ 2	$ 2	$ 4	$ 5
Aerospace Systems	—	1	1	1
Communication Systems	3	9	8	18
Sensor Systems	1	—	1	2
Consolidated	$ 6	$ 12	$ 14	$ 26

The Company had severance and restructuring related liabilities of $15 million and $23 million included in other current liabilities on the Company's balance sheets at June 29, 2018 and December 31, 2017, respectively. The remaining liability balance at June 29, 2018 is expected to be paid primarily by the second quarter of 2019. The table below presents the change to the Company's severance and restructuring related liability during the first half period ended June 29, 2018.

	June 29, 2018
	(in millions)
Balance at beginning of period	$ 23
Additional provisions	14
Cash payments	(22)
Balance at end of period	$ 15

25. Condensed Combining Financial Information of L3 and Its Subsidiaries

The debt of L3, including the senior notes and borrowings under amounts drawn against the Credit Facility, are guaranteed, on a joint and several, full and unconditional basis, by certain of its 100% owned domestic subsidiaries (the Guarantor Subsidiaries). See Note 9 to the audited consolidated financial statements for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K for additional information. The foreign subsidiaries and certain domestic subsidiaries of L3 (the Non-Guarantor Subsidiaries) do not guarantee the debt of L3. None of the debt of L3 has been issued by its subsidiaries.

Under the terms of the indentures governing the senior notes, the guarantees of the senior notes will automatically and unconditionally be released and discharged: (1) upon the release of all guarantees of all other outstanding indebtedness of L3 or (2) upon the determination that such guarantor is no longer a "domestic subsidiary." In addition, the guarantees of the senior notes will be automatically and unconditionally released and discharged in the event of a sale or other disposition of all of the assets of any guarantor, by way of merger, consolidation or otherwise, or a sale of all of the capital stock of such guarantor. There are no restrictions on the payment of dividends from the Guarantor Subsidiaries to L3.

The following unaudited condensed combining financial information presents the results of operations, financial position and cash flows of: (1) L3 excluding its consolidated subsidiaries (the Parent), (2) the Guarantor Subsidiaries, (3) the Non-Guarantor Subsidiaries and (4) the eliminations to arrive at the information for L3 on a consolidated basis.

	L3	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated L3
			(in millions)		
Condensed Combining Balance Sheets:					
At June 29, 2018					
Current assets:					
Cash and cash equivalents	$ 1,055	$ 19	$ 307	$ (15)	$ 1,366
Billed receivables, net	285	315	263	—	863
Contract assets	616	810	185	—	1,611
Inventories	393	315	226	—	934
Prepaid expenses and other current assets	112	150	70	—	332
Total current assets	2,461	1,609	1,051	(15)	5,106
Goodwill	2,273	2,828	1,550	—	6,651
Other assets	707	712	354	—	1,773
Investment in and amounts due from consolidated subsidiaries	5,668	6,614	—	(12,282)	—
Total assets	$ 11,109	$ 11,763	$ 2,955	$ (12,297)	$ 13,530
Current portion of long-term debt	$ 581	$ —	$ —	$ —	$ 581
Current liabilities	774	864	599	(15)	2,222
Amounts due to consolidated subsidiaries	—	—	426	(426)	—
Other long-term liabilities	991	757	148	—	1,896
Long-term debt	3,319	—	—	—	3,319
Total liabilities	5,665	1,621	1,173	(441)	8,018
L3 shareholders' equity	5,444	10,142	1,782	(11,924)	5,444
Noncontrolling interests	—	—	—	68	68
Total equity	5,444	10,142	1,782	(11,856)	5,512
Total liabilities and equity	$ 11,109	$ 11,763	$ 2,955	$ (12,297)	$ 13,530

L3 TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS — CONTINUED

	L3	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated L3
			(in millions)		
At December 31, 2017					
Current assets:					
Cash and cash equivalents	$ 432	$ 16	$ 285	$ (71)	$ 662
Billed receivables, net	266	244	213	—	723
Contracts in process	706	912	315	—	1,933
Prepaid expenses and other current assets	330	235	124	—	689
Assets held for sale	—	135	—	—	135
Assets of discontinued operations	306	—	—	—	306
Total current assets	2,040	1,542	937	(71)	4,448
Goodwill	2,248	2,844	1,523	—	6,615
Other assets	658	687	321	—	1,666
Investment in and amounts due from consolidated subsidiaries	5,513	6,398	—	(11,911)	—
Total assets	$ 10,459	$ 11,471	$ 2,781	$ (11,982)	$ 12,729
Current liabilities	$ 811	$ 832	$ 564	$ (71)	$ 2,136
Liabilities held for sale	—	17	—	—	17
Liabilities of discontinued operations	226	—	—	—	226
Amounts due to consolidated subsidiaries	—	—	330	(330)	—
Other long-term liabilities	1,009	729	131	—	1,869
Long-term debt	3,330	—	—	—	3,330
Total liabilities	5,376	1,578	1,025	(401)	7,578
L3 shareholders’ equity	5,083	9,893	1,756	(11,649)	5,083
Noncontrolling interests	—	—	—	68	68
Total equity	5,083	9,893	1,756	(11,581)	5,151
Total liabilities and equity	$ 10,459	$ 11,471	$ 2,781	$ (11,982)	$ 12,729

L3 TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

	L3	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated L3
			(in millions)		
Condensed Combining Statements of Operations:					
For the quarter ended June 29, 2018:					
Total net sales	$ 919	$ 1,328	$ 431	$ (95)	$ 2,583
Total operating costs and expenses	(819)	(1,239)	(347)	95	(2,310)
Gain on sale of the Crestview & TCS Businesses	—	48	—	—	48
Operating income	100	137	84	—	321
Interest expense	(43)	—	(1)	—	(44)
Interest and other income, net	6	1	1	—	8
Debt retirement charge	(48)	—	—	—	(48)
Income from continuing operations before income taxes	15	138	84	—	237
Provision for income taxes	(4)	(26)	(18)	—	(48)
Equity in net income of consolidated subsidiaries	174	47	—	(221)	—
Income from continuing operations	185	159	66	(221)	189
Income from discontinued operations, net of income taxes	190	—	—	—	190
Net income	375	159	66	(221)	379
Net income attributable to noncontrolling interests	—	—	—	(4)	(4)
Net income attributable to L3	$ 375	$ 159	$ 66	$ (225)	$ 375
Comprehensive income attributable to L3	$ 306	$ 85	$ (11)	$ (74)	$ 306
For the quarter ended June 30, 2017:					
Total net sales	$ 894	$ 1,193	$ 399	$ (101)	$ 2,385
Total operating costs and expenses	(810)	(1,049)	(333)	101	(2,091)
Operating income	84	144	66	—	294
Interest expense	(42)	—	—	—	(42)
Interest and other income, net	2	—	—	—	2
Income from continuing operations before income taxes	44	144	66	—	254
Provision for income taxes	(10)	(34)	(15)	—	(59)
Equity in net income of consolidated subsidiaries	156	35	—	(191)	—
Income from continuing operations	190	145	51	(191)	195
Income from discontinued operations, net of income taxes	12	—	—	—	12
Net income	202	145	51	(191)	207
Net income attributable to noncontrolling interests	—	—	—	(5)	(5)
Net income attributable to L3	$ 202	$ 145	$ 51	$ (196)	$ 202
Comprehensive income attributable to L3	$ 264	$ 192	$ 104	$ (296)	$ 264

L3 TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

	L3	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated L3
			(in millions)		
Condensed Combining Statements of Operations:					
For the first half period ended June 29, 2018:					
Total net sales	$ 1,726	$ 2,567	$ 853	$ (192)	$ 4,954
Total operating costs and expenses	(1,541)	(2,394)	(687)	192	(4,430)
Gain on sale of the Crestview & TCS Businesses	—	48	—	—	48
Operating income	185	221	166	—	572
Interest expense	(84)	—	(1)	—	(85)
Interest and other income, net	11	1	2	—	14
Debt retirement charge	(48)	—	—	—	(48)
Income from continuing operations before income taxes	64	222	167	—	453
Provision for income taxes	(10)	(35)	(27)	—	(72)
Equity in net income of consolidated subsidiaries	318	93	—	(411)	—
Income from continuing operations	372	280	140	(411)	381
Income from discontinued operations, net of income tax	206	—	—	—	206
Net income	578	280	140	(411)	587
Net income attributable to noncontrolling interests	—	—	—	(9)	(9)
Net income attributable to L3	$ 578	$ 280	$ 140	$ (420)	$ 578
Comprehensive income attributable to L3	$ 555	$ 237	$ 96	$ (333)	$ 555
For the first half period ended June 30, 2017:					
Total net sales	$ 1,744	$ 2,389	$ 750	$ (177)	$ 4,706
Total operating costs and expenses	(1,581)	(2,145)	(626)	177	(4,175)
Operating income	163	244	124	—	531
Interest expense	(84)	—	—	—	(84)
Interest and other income, net	5	—	1	—	6
Income from continuing operations before income taxes	84	244	125	—	453
Provision for income taxes	(19)	(54)	(28)	—	(101)
Equity in net income of consolidated subsidiaries	278	58	—	(336)	—
Income from continuing operations	343	248	97	(336)	352
Income from discontinued operations, net of income tax	23	—	—	—	23
Net income	366	248	97	(336)	375
Net income attributable to noncontrolling interests	—	—	—	(9)	(9)
Net income attributable to L3	$ 366	$ 248	$ 97	$ (345)	$ 366
Comprehensive income attributable to L3	$ 456	$ 308	$ 170	$ (478)	$ 456

L3 TECHNOLOGIES, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — CONTINUED

	L3	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated L3
			(in millions)		
Condensed Combining Statements of Cash Flows					
For the first half period ended June 29, 2018:					
Operating activities:					
Net cash from (used in) operating activities from continuing operations	$ 195	$ (100)	$ 88	$ (5)	$ 178
Investing activities:					
Business acquisitions, net of cash acquired	(69)	—	—	—	(69)
Proceeds from sale of businesses, net of closing date cash balances	360	175	—	—	535
Other investing activities	(79)	(38)	(19)	—	(136)
Net cash from (used in) investing activities from continuing operations	212	137	(19)	—	330
Financing activities:					
Proceeds from sale of senior notes	1,798	—	—	—	1,798
Repurchases and redemptions of senior notes	(1,263)	—	—	—	(1,263)
Common stock repurchased	(287)	—	—	—	(287)
Dividends paid	(128)	—	—	—	(128)
Other financing activities	89	(34)	(39)	61	77
Net cash from (used in) financing activities from continuing operations	209	(34)	(39)	61	197
Effect of foreign currency exchange rate changes on cash	—	—	(8)	—	(8)
Net increase in cash and cash equivalents of discontinued operations	7	—	—	—	7
Net increase in cash	623	3	22	56	704
Cash and cash equivalents, beginning of the period	432	16	285	(71)	662
Cash and cash equivalents, end of the period	$ 1,055	$ 19	$ 307	$ (15)	$ 1,366
For the first half period ended June 30, 2017:					
Operating activities:					
Net cash from operating activities from continuing operations	$ 137	$ 101	$ 118	$ (41)	$ 315
Investing activities:					
Business acquisitions, net of cash acquired	(191)	—	—	—	(191)
Proceeds from sale of businesses, net of closing date cash balances	15	—	1	—	16
Other investing activities	(33)	11	(10)	—	(32)
Net cash (used in) from investing activities from continuing operations	(209)	11	(9)	—	(207)
Financing activities:					
Common stock repurchased	(26)	—	—	—	(26)
Dividends paid	(119)	—	—	—	(119)
Other financing activities	164	(117)	(124)	92	15
Net cash from (used in) financing activities from continuing operations	19	(117)	(124)	92	(130)
Effect of foreign currency exchange rate changes on cash	—	—	10	—	10
Net increase in cash and cash equivalents of discontinued operations	34	—	—	—	34
Net decrease in cash	(19)	(5)	(5)	51	22
Cash and cash equivalents, beginning of the period	291	5	203	(136)	363
Cash and cash equivalents, end of the period	$ 272	$ —	$ 198	$ (85)	$ 385

During the preparation of the condensed consolidating financial information of the Company and its subsidiaries for the quarter ended June 29, 2018, the Company determined the Guarantor Subsidiaries and Non-Guarantor Subsidiaries columns of the Condensed Combining Balance Sheet at December 31, 2017 and March 30, 2018 contained errors which understated total assets, total liabilities and equity of the guarantor subsidiaries reflected as non-guarantor subsidiaries and overstated total assets, total liabilities and equity of the non-guarantor subsidiaries. The errors related to certain guarantor subsidiaries reflected as non-guarantor subsidiaries and understating the equity in net income of certain guarantor subsidiaries. As a result of these errors, the guarantor subsidiaries and non-guarantor subsidiaries columns of the Condensed Combining Statements of Operations for the quarter ended June 30, 2017 and for the half year ended June 30, 2017 understated net income of the guarantor subsidiaries and overstated net income of the non-guarantor subsidiaries. The errors did not impact the Condensed Combining Statement of Cash Flows. The Company assessed the materiality of these items on previously issued annual and interim financial statements in accordance with SEC Staff Accounting Bulletin No. 99 and No. 108, and concluded that the disclosure errors were not material to the Company's previously issued annual and quarter financial statements taken as a whole. The Company has revised the reported amounts for Guarantor Subsidiaries, Non-Guarantor Subsidiaries and Eliminations in the December 31, 2017 Condensed Combining Balance Sheet, and the Condensed Combining Statements of Operations for the quarterly period ended June 30, 2017 and for the first half period ended June 30, 2017, to correct for these errors as enumerated below. Additionally, the effect of changes in the guarantor subsidiaries resulting from the sale of Vertex Aerospace which occurred on June 29, 2018 are being retrospectively reflected in the below guarantor adjustment column.

Condensed Combining Balance Sheet (at December 31, 2017)

	As Reported			Adjustment			As Adjusted		
	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
					(in millions)				
Total assets	$ 10,270	$ 3,156	$ (10,930)	$ 1,201	$ (375)	$ (1,052)	$ 11,471	$ 2,781	$ (11,982)
Total liabilities	$ 1,756	$ 1,091	$ (419)	$ (178)	$ (66)	$ 18	$ 1,578	$ 1,025	$ (401)
Total equity	$ 8,514	$ 2,065	$ (10,511)	$ 1,379	$ (309)	$ (1,070)	$ 9,893	$ 1,756	$ (11,581)

Condensed Combining Statement of Operations (Second Quarter Ended June 30, 2017)

	As Reported			Adjustment			As Adjusted		
	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
					(in millions)				
Net income	$ 117	$ 52	$ (164)	$ 28	$ (1)	$ (27)	$ 145	$ 51	$ (191)

Condensed Combining Statement of Operations (First Half Ended June 30, 2017)

	As Reported			Adjustment			As Adjusted		
	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination
					(in millions)				
Net Income	$ 201	$ 100	$ (292)	$ 47	$ (3)	$ (44)	$ 248	$ 97	$ (336)

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview and Outlook

L3's Business

L3 is a prime contractor in Intelligence, Surveillance and Reconnaissance (ISR) systems, aircraft sustainment (including modifications and fleet management of special mission aircraft), simulation and training, night vision and image intensification equipment and security and detection systems. L3 is also a leading provider of a broad range of communication, electronic and sensor systems used on military, homeland security 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), foreign governments, and domestic and foreign commercial customers.

We have the following four reportable segments: (1) Electronic Systems, (2) Aerospace Systems, (3) Communication Systems and (4) Sensor Systems.

Electronic Systems provides a broad range of products and services, including components, products, subsystems, systems and related services to military and commercial customers. These products and services serve niche markets, such as aircraft simulation and training, power and distribution, cockpit avionics, airport security and precision weapons. Electronic Systems sells these products and services primarily to the DoD and select foreign governments. The Electronic Systems business areas are Link Training & Simulation, Power & Propulsion Systems, Commercial Aviation Solutions, Precision Engagement Systems and Security & Detection Systems.

Aerospace Systems provides products and services for the global ISR and Command, Control and Communications (C^3) markets, specializing in signals intelligence (SIGINT) and multi-intelligence platforms, including engineering, modernization and sustainment solutions for military and various government aircraft, ground support equipment and other platforms. These strategic and tactical products and services provide warfighters with the ability to detect, collect, identify, analyze and disseminate information from command centers, communication nodes and air defense systems for real-time situational awareness and response. Aerospace Systems sells these products and services primarily to the DoD and select foreign governments. The Aerospace Systems business areas are Mission Integration, MAS, Aerostructures and Advanced Systems.

Communication Systems provides network and communication systems, secure communications products, radio frequency (RF) components, satellite communication terminals and space, microwave and telemetry products. These products include secure data links that are used to connect a variety of space, airborne, ground and sea-based communication systems and are used in transmission, processing, recording, monitoring and dissemination functions of these communication systems. Communication Systems sells these products and services primarily to the DoD and select foreign governments. The Communications Systems business areas are Broadband Communication Systems, Space & Power Systems and Advanced Communications.

Sensor Systems provides a broad range of multi-domain ISR mission solutions from seabed to space for DoD, intelligence community, international, federal, civil and commercial customers. Major capabilities and mission solutions include networked warfighter systems, integrated ISR and targeting systems, space avionics and imaging payloads, Counter Unmanned Aircraft Systems mission solutions, integrated maritime mission solutions, directed energy, cyber and electronic warfare, special mission command & control, lightweight unmanned undersea vehicles, modeling & simulation and life cycle support. Sensor Systems sells these products and services primarily to the DoD and select foreign governments. The Sensor Systems business areas are Space & Sensor Systems, Airborne Sensor Systems, Warrior Sensor Systems, Maritime Sensor Systems, Intelligence & Mission Systems and Advanced Programs.

Financial information with respect to our segments is included in Results of Operations within this section, Note 23 to our unaudited condensed consolidated financial statements and Note 21 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2017.

We adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (commonly known as ASC 606), effective January 1, 2018 using the modified retrospective transition method. In accordance with the modified retrospective transition method, the quarter ended June 29, 2018 (2018 second quarter) and the first half period ended June 29, 2018 (2018 first half) are presented under ASC 606, while the quarter ended June 30, 2017 (2017 second quarter) and the first half period ended June 30, 2017 (2017 first half) are presented under ASC 605, *Revenue Recognition*, the accounting standard in effect for periods ending prior to January 1, 2018. The cumulative effect of the change in accounting for periods prior to January 1, 2018 was recognized through retained earnings at the date of adoption.

On June 29, 2018, we completed the sale of the Vertex Aerospace businesses for a sale price of $540 million subject to customary closing net working capital adjustments. In connection with the sale, we recognized: (1) a pre-tax gain from continuing operations of $48 million ($25 million after income taxes) related to the Crestview Aerospace and TCS businesses (the "Crestview & TCS Businesses") and (2) a pre-tax gain from discontinued operations of $237 million ($180 million after income taxes) related to the Vertex Aerospace business. The divestiture of the Vertex Aerospace business represents a strategic shift by us to exit the logistics solution and maintenance services business for military aircraft where we do not provide complex ISR systems integration and modification. The Vertex Aerospace business generated sales of $1.4 billion for the year ended December 31, 2017. The assets and liabilities and results of operations of the Vertex Aerospace business are reported as discontinued operations for all periods presented.

All references made to financial data in this Quarterly Report on Form 10-Q are to L3's continuing operations, unless specifically noted.

For the year ended December 31, 2017, we generated sales of $9,573 million and our primary end customer was the DoD. The table below presents a summary of our consolidated 2017 sales by major category of end customer and the percent contributed by each to our consolidated 2017 sales.

	2017 Sales	% of 2017 Sales
	(in millions)	
DoD	$ 6,329	66%
Other U.S. Government	368	4
Total U.S. Government	6,697	70
Foreign governments	1,420	15
Commercial — foreign	809	8
Commercial — domestic	647	7
Total sales	$ 9,573	100%

We currently expect the composition of our 2018 consolidated sales to the U.S. Government and to international and commercial customers to remain approximately the same as compared to 2017.

Business Environment

U.S. Government Markets. Sales to U.S. Government customers represented 70% of our 2017 sales and were primarily to DoD customers, which comprised 66% of our sales. Therefore, our annual sales are generally highly correlated to changes in U.S. Government spending levels, especially DoD budget levels.

The total DoD budget for FY 2016 was $581 billion, an increase of 4% compared to FY 2015. The increase was due to a higher base budget of $522 billion, representing an increase of $25 billion compared to FY 2015. The FY 2016 Overseas Contingency Operations (OCO) budget declined slightly to $59 billion compared to $63 billion for FY 2015. The total DoD budget for FY 2017 was $606 billion ($523 billion base budget, $83 billion OCO), an increase of 4% compared to the appropriated FY 2016 DoD budget.

Because the FY 2018 DoD Appropriations bill was not enacted into law prior to start of fiscal year 2018 (October 1, 2017), the DoD's FY 2018 funding was addressed through a series of Continuing Resolutions (CR). However, on February 9, 2018, President Trump signed into law the Bipartisan Budget Act of 2018 (BBA), a bipartisan two-year budget and debt ceiling agreement that provides a level of stability in the U.S. Government budget process over the next two fiscal years (FYs 2018 and 2019). The BBA included a short-term CR extension to March 23, 2018, to allow for completion of the FY 2018 appropriations process (including enactment of the FY 2018 DoD Appropriations bill). On March 23, 2018, Congress passed and President Trump signed into law the Consolidated Appropriations Act, 2018 (2018 Appropriations Act), a $1.3 trillion spending package that funds the government through September 30, 2018. The 2018 Appropriations Act includes $665 billion for the DoD ($599 billion base budget, $66 billion OCO). While 2018 BBA does raise the spending caps for FY 2018 and FY 2019 previously constrained by the

Budget Control Act of 2011 (BCA) and temporarily suspends the statutory debt ceiling through March 1, 2019, it does not modify the BCA's spending caps or sequestration mechanism beyond FY 2019.

On February 12, 2018, the Trump Administration submitted its FY 2019 DoD budget request to Congress, totaling $686 billion ($617 billion base budget, $69 billion OCO funding) and representing an increase of 3% compared to FY 2018 enacted levels. On May 24, 2018, the House passed its version of the FY 2019 National Defense Authorization Act (NDAA), and on June 18, 2018, the Senate passed its version of the FY19 NDAA. Both the House and Senate versions of the FY19 NDAA authorize a base DoD budget of $617 billion and $69 billion in OCO funding, consistent with the President's FY 2019 budget request. The House and Senate versions have a host of differences that we expect Congress to reconcile with a target for enactment not later than the end of the government's current fiscal year (September 30, 2018). On June 28, 2018, the House passed its version of the FY 2019 DoD Appropriations bill. As of today, the Senate has yet to take up its version of the FY 2019 DoD Appropriations bill.

While the BBA and the 2018 Appropriations Act provide a level of stability, future DoD budgets and spending levels are determined by a number of factors beyond our control, including changes to U.S. procurement policies, current and future domestic and international budget conditions, presidential administration priorities and changing national security and defense requirements. Furthermore, the U.S. Government's overall fiscal challenges remain, including uncertainties regarding BCA sequestration cuts after FY 2019, and, therefore, future DoD budgets and spending levels are difficult to predict. Although uncertainty exists, we believe that L3 will benefit from several of the DoD's focus areas such as ISR, unmanned systems, undersea warfare, precision strike, secure communications, missile defense and space programs, electronic warfare, aircraft readiness and the ability to project power in denied environments. For more information on the risks and uncertainties related to our U.S. Government contracts, see "Part I - Item 1A - Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017.

International and Commercial Markets. Sales to end customers other than the U.S. Government represented 30% of our 2017 sales. These sales are generally affected by global economic conditions, geopolitical and security conditions and commodity prices, as well as our competitive success in winning new business and increasing our market share. We believe that L3 will benefit from a large addressable international market with sales directly to foreign allied governments and under foreign military sales agreements between the U.S. Government and foreign governments. Although our international sales are experiencing near-term softness, we believe the focus of our international markets in areas such as ISR, simulators, communication systems, night vision products and sensors systems will benefit L3 in the long term. We also believe that the commercial markets in which we participate, such as aviation products, security and screening, simulation and training, and RF microwave and power, have long term favorable fundamentals.

Key Performance Measures

The primary financial performance measures that we use to manage our businesses and monitor results of operations are (i) sales, (ii) operating income and (iii) net cash from operating activities (Operating Cash Flow). Management believes that these financial performance measures are the primary growth drivers for our earnings per share and cash flow per common share. Generally, in evaluating our businesses and contract performance, we focus on net sales, operating income, operating margin, which we define as operating income as a percentage of sales, and the financial performance measure of Operating Cash Flow, and not the type or amount of operating costs.

One of our primary business objectives is to increase sales organically and through select business acquisitions. We define organic sales as net sales excluding the sales impact of acquisitions and divestitures. Sales declines related to business divestitures are sales from divestitures that are included in our actual results for the twelve-month period prior to the divestitures. Sales increases related to acquired businesses are sales from acquisitions that are included in our actual results for less than a twelve-month period. 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, because sales growth combined with operating margin levels determine our operating income levels. Operating Cash Flow is also an important financial performance measure because Operating Cash Flow measures our ability to convert operating income into cash after paying income taxes and interest expenses and investing in working capital.

Sales Trends. For the 2018 second quarter, consolidated net sales of $2,583 million increased by $198 million, or 8%, compared to the 2017 second quarter. Organic sales increased by $178 million, or 7%, to $2,563 million for the 2018 second quarter. Organic sales exclude $20 million of sales increases related to business acquisitions.

For the 2018 first half, consolidated net sales of $4,954 million increased by $248 million, or 5%, compared to the 2017 first half. Organic sales increased by $217 million, or 5%, to $4,913 million for the 2018 first half. Organic sales exclude $41 million of sales increases related to business acquisitions and $10 million of sales declines related to business divestitures. See “Results of Operations”, including segment results below, for a further discussion of sales.

We derived approximately 66% of our 2017 sales from DoD customers; 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 L3’s future results of operations, including our sales and operating income growth rates. Additionally, L3’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 and those with clearances of top-secret and above. We expect our 2018 consolidated sales to increase by approximately 6% compared to 2017, including an organic sales increase of 5%. We expect organic sales to the DoD and U.S. Government to increase by approximately 6% and organic international sales to decline by approximately 3% due to the completion of certain contracts with foreign governments. We expect organic commercial sales to increase by approximately 12% primarily for commercial aviation products.

Operating Income and Margin Trends. For the 2018 second quarter, our consolidated operating income was $321 million, and our consolidated operating margin was 12.4%. Our consolidated operating income and consolidated operating margin for the 2018 second quarter were impacted by the gain on sale of the Crestview & TCS Businesses of $48 million, which is further discussed below. The gain on sale of the Crestview & TCS Businesses is excluded from segment operating income because it is excluded by management for purposes of evaluating the operating performance of our business segments. Our segment operating income was $273 million for the 2018 second quarter, a decrease of 7% from $294 million for the 2017 second quarter, and our segment operating income as a percentage of sales (segment operating margin) was 10.6% for the 2018 second quarter, a decrease of 170 basis points from 12.3% for the 2017 second quarter. In addition, general and administrative expenses as a percentage of sales was 14.8% for the 2018 second quarter, compared to 15.1% for the 2017 second quarter.

For the 2018 first half, our consolidated operating income was $572 million, and our consolidated operating margin was 11.5%. Our consolidated operating income and consolidated operating margin for the 2018 first half were impacted by the gain on sale of the Crestview & TCS Businesses of $48 million. Our segment operating income was $524 million for the 2018 first half, a decrease of 1% from $531 million for the 2017 first half, and our segment operating margin was 10.6% for the 2018 first half, a decrease of 70 basis points from 11.3% for the 2017 first half. See “Results of Operations”, including segment results below, for a further discussion of operating margin. In addition, general and administrative expenses as a percentage of sales was 15.7% for the 2018 first half, compared to 15.2% for the 2017 first half. The increase was primarily due to $36 million of higher research and development costs primarily at Sensor Systems segment and $15 million for new product introduction expenses in newly acquired businesses.

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. While we continue to undertake cost management actions, such as reducing our indirect costs, curtailing pension benefits for salaried employees, 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 and may be partially or fully offset by other cost increases. Furthermore, as a U.S. Government contractor, we do not retain the benefit of all cost management actions, particularly on cost-plus type contracts or on contracts where we are the sole-source provider. Although we expect our 2018 annual operating margin to increase as compared to 2017, changes in the competitive environment and DoD procurement practices and changes in annual pension expense, including related assumptions such as the benefit obligation discount rates, among other factors, could result in lower operating margin. Furthermore, select business acquisitions and new business, including contract renewals and new contracts, could have lower future operating margins compared to our operating margins on existing contracts and could reduce future operating margins.

Operating Cash Flow Trends. We generated $178 million of Operating Cash Flow during the 2018 first half, a decrease of $137 million compared with $315 million generated during the 2017 first half. The decrease in Operating Cash Flow was primarily due to higher working capital requirements, primarily contract assets and milestone payments for aircraft procurements related to U.S. and foreign government contracts.

U.S. Tax Reform

The U.S. Government enacted the U.S. Tax Cuts and Jobs Act (U.S. Tax Reform) on December 22, 2017, which made significant changes to the U.S. tax system. Significant changes under U.S. Tax Reform included, among other things, the reduction of the U.S. corporate income tax rate from 35% to 21%, the implementation of a modified territorial tax system and the imposition of a one-time repatriation tax on deemed repatriated earnings and profits of U.S. owned foreign subsidiaries (Toll Charge). As a result, we recorded an estimated tax benefit (Preliminary Net Tax Benefit) from U.S. Tax Reform in our consolidated financial statements for the year ended December 31, 2017. We did not record any change to the Preliminary Net Tax Benefit on the unaudited condensed consolidated financial statements for the 2018 second quarter and the 2018 first half. The Preliminary Net Tax Benefit ultimately recorded may differ in the future due principally to changes to the interpretations of U.S. Tax Reform, legislative action to clarify the interpretation of U.S. Tax Reform and changes to estimates we have utilized to calculate the tax benefit. We expect to finalize the tax benefit from U.S. Tax Reform with the filing of our tax return and at that time will record the difference between the final benefit and the Preliminary Net Tax Benefit previously recorded, if any, in accordance with the Securities and Exchange Commission Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*. Additionally, we are still evaluating the Global Intangible Low-Taxed Income (GILTI) provisions enacted under U.S. Tax Reform, and the associated election to record its effects as a period cost or as a component of deferred taxes.

Discontinued Operations

Vertex Aerospace. As discussed in Note 1 to our unaudited condensed consolidated financial statements, on June 29, 2018, we completed the sale of the Vertex Aerospace business. The table below presents the statements of operations data for Vertex Aerospace. The amounts presented in discontinued operations include allocated interest expenses for debt not directly attributable or related to L3's other operations. Interest expense was allocated in accordance with the accounting standards for discontinued operations and were based on the ratio of Vertex Aerospace's net assets to the sum of: (1) L3 consolidated total net assets and (2) L3 consolidated total debt. See Note 5 to the unaudited condensed consolidated financial statements for additional information.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(in millions)			
Net sales	$ 226	$ 351	$ 597	$ 703
Operating costs and expenses [(1)]	(212)	(332)	(561)	(667)
Operating income from discontinued operations	14	19	36	36
Interest expense allocated to discontinued operations	—	—	(1)	(1)
Gain on sale of businesses	237	—	237	—
Income from discontinued operations before income taxes	251	19	272	35
Income tax expense	(61)	(7)	(66)	(12)
Income from discontinued operations, net of income taxes	$ 190	$ 12	$ 206	$ 23

(1) For the quarterly and first half periods ended June 29, 2018, we recognized $3 million of trailing expenses related to the sale of NSS.

Business Acquisitions and Divestitures

Our Annual Report on Form 10-K summarizes the business acquisitions and divestitures that we completed during the three years ended December 31, 2017. During the 2018 first half, we acquired Applied Defense Solutions, Inc., a leading aerospace engineering, software development and space situational awareness company, renamed L3 ADS, Inc. We also acquired Latitude Engineering, LLC, renamed L3 Latitude Engineering, Inc. Latitude Engineering is engaged in the design, manufacturing, integration, servicing, operation and support of hybrid quadrotor unmanned aerial systems. On July 11, 2018, we announced that we were entering into a definitive agreement to acquire Azimuth Security and Linchpin Labs, two information security businesses that significantly strengthen our existing C^6ISR (Command, Control, Communications, Computers, Cyber-Defense and Combat Systems, and Intelligence, Surveillance and Reconnaissance) capabilities and create synergies to drive future growth in cyber and international markets. See Note 5 to our unaudited condensed consolidated financial statements for additional information regarding our acquisitions and divestitures.

Results of Operations

The following information should be read in conjunction with our unaudited condensed consolidated financial statements contained in this quarterly report. Our results of operations for the periods presented are affected by our business acquisitions and divestitures.

Consolidated Results of Operations

The table below provides L3's selected financial data, excluding discontinued operations, for the 2018 second quarter compared with the 2017 second quarter and the 2018 first half compared with the 2017 first half.

	Second Quarter Ended			First Half Ended		
(in millions, except per share data)	June 29, 2018	June 30, 2017	Increase/(decrease)	June 29, 2018	June 30, 2017	Increase/(decrease)
Net sales [1]	$ 2,583	$ 2,385	8 %	$ 4,954	$ 4,706	5 %
Operating income [1]	321	294	9 %	572	531	8 %
Gain on sale of the Crestview & TCS Businesses	(48)	—	nm	(48)	—	nm
Segment operating income [2]	$ 273	$ 294	(7) %	$ 524	$ 531	(1) %
Operating margin	12.4%	12.3%	10 bpts	11.5%	11.3%	20 bpts
Segment operating margin	10.6%	12.3%	(170) bpts	10.6%	11.3%	(70) bpts
Interest expense and other	$ (36)	$ (40)	(10) %	$ (71)	$ (78)	(9) %
Debt retirement charge	$ (48)	$ —	nm	$ (48)	$ —	nm
Effective income tax rate	20.3%	23.2%	(290) bpts	15.9%	22.3%	(640) bpts
Net income from continuing operations attributable to L3	$ 185	$ 190	(3) %	$ 372	$ 343	8 %
Diluted earnings per share from continuing operations	$ 2.33	$ 2.39	(3) %	$ 4.67	$ 4.32	8 %
Adjusted diluted earnings per share from continuing operations [3]	$ 2.47	$ 2.39	3 %	$ 4.81	$ 4.32	11 %
Diluted weighted average common shares outstanding	79.4	79.5	— %	79.6	79.4	— %

(1) The adoption of ASC 606 resulted in a net increase to sales of approximately $45 million and no impact to operating income for the 2018 second quarter and resulted in net increases to sales and operating income by approximately $121 million and $19 million, respectively, for the 2018 first half. Under ASC 606, sales from certain contracts previously accounted for under the units-of-delivery method are recognized earlier in the performance period as costs are incurred as opposed to when the units are delivered under ASC 605. See Note 3 to our unaudited condensed consolidated financial statements for additional information on the impact by segment.

(2) Results for the 2017 second quarter and first half include the sale of the company's property in San Carlos, California, which resulted in a pre-tax gain of $42 million ($26 million after-tax or $0.33 per share) and $64 million of cash proceeds.

(3) Adjusted diluted EPS from continuing operations is diluted EPS from continuing operations excluding: (i) the gain on sale of the Crestview & TCS Businesses of $0.31 per diluted share and (ii) the debt retirement charge of $0.45 per diluted share. Adjusted diluted EPS from continuing operations is not calculated in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). We believe that the gain relating to the Crestview & TCS Businesses divestiture and the debt retirement charge affect the comparability of the results of operations and that disclosing diluted EPS from continuing operations excluding these items is useful to investors as it allows investors to more easily compare 2018 results to 2017 results. However, these non-GAAP financial measures may not be defined or calculated by other companies in the same manner.

nm - not meaningful

Net Sales: For the 2018 second quarter, consolidated net sales of $2,583 million increased $198 million, or 8%, compared to the 2017 second quarter. Organic sales increased by $178 million, or 7%, to $2,563 million for the 2018 second quarter. Organic sales exclude $20 million of sales increases related to business acquisitions. For the 2018 second quarter, organic sales to the U.S. Government increased $158 million, or 10%, to $1,811 million and organic sales to international and commercial customers increased $20 million, or 3%, to $752 million.

Sales from products increased by $106 million to $1,786 million for the 2018 second quarter, compared to $1,680 million for the 2017 second quarter. Sales from products represented approximately 69% of consolidated net sales for the 2018 second quarter compared to 70% for the 2017 second quarter. The increase in sales from products is due to: (1) higher volume of space products and systems and commercial maritime systems, (2) increased deliveries of night vision products, precision engagement systems and airborne turret systems, and (3) procurement of one Compass Call Recap aircraft. These increases were partially offset by lower volume for Unmanned Aerial Vehicle (UAV) communication systems. See reportable segment results below for additional detail.

Cost of sales from products increased by $96 million to $1,349 million for the 2018 second quarter, compared to $1,253 million for the 2017 second quarter. The increase was primarily due to higher products cost of sales of $60 million at Mission Integration, $48 million at Space & Power Systems, $27 million at Precision Engagement Systems, $15 million at Maritime Sensor Systems, $11 million at Security & Detection Systems, $8 million at Airborne Sensor Systems, and $2 million at Warrior Systems partially offset by $75 million primarily at Broadband Communication Systems, consistent with the change in sales from products described above.

Sales from services increased by $92 million to $797 million for the 2018 second quarter, compared to $705 million for the 2017 second quarter. Sales from services represented approximately 31% of consolidated net sales for the 2018 second quarter compared to 30% for the 2017 second quarter. The increase in sales for services is due to: (1) higher volume for the Presidential Aircraft Recap Program, commercial and military training and simulation, operational and sustainment on U.S. Army satellite communication systems, and systems engineering on mission management system architecture and (2) business acquisitions. See reportable segment results below for additional detail.

Cost of sales from services increased by $99 million to $578 million for the 2018 second quarter, compared to $479 million for the 2017 second quarter. The increase was primarily due to higher services cost of sales of $64 million at Broadband Communication Systems, $18 million Mission Integration, $10 million at Commercial Aviation Solutions and $7 million at Link Training & Simulation, consistent with the change in sales from services described above.

For the 2018 first half, consolidated net sales of $4,954 million increased $248 million, or 5%, compared to the 2017 first half. Organic sales increased by $217 million, or 5%, to $4,913 million for the 2018 first half. Organic sales exclude $41 million of sales increases related to business acquisitions and $10 million of sales declines related to business divestitures. For the 2018 first half, organic sales to the U.S. Government increased $177 million, or 5%, to $3,451 million, and organic sales to international and commercial customers increased $40 million, or 3%, to $1,462 million.

Sales from products increased by $148 million to $3,432 million for the 2018 first half, compared to $3,284 million for the 2017 first half. Sales from products represented approximately 69% of consolidated net sales for the 2018 first half compared to 70% for the 2017 first half. The increase in sales from products is due to: (1) higher volume of space products and systems and compact towed arrays, (2) increased deliveries of night vision products, precision engagement systems, electronic warfare countermeasures, airborne turret systems and airport screening devices, and (3) procurement of one Compass Call Recap aircraft. These increases were partially offset by lower volume for UAV communication systems. See reportable segment results below for additional detail.

Cost of sales from products increased by $99 million to $2,540 million for the 2018 first half, compared to $2,441 million for the 2017 first half. The increase was primarily due to higher products cost of sales of $47 million at Precision Engagement Systems, $34 million at Space & Power Systems, $31 million at Security & Detection Systems, $25 million at Mission Integration, $25 million at Maritime Sensor Systems, $21 million at Space & Sensor Systems, $15 million at Airborne Sensor Systems, and $4 million at Warrior Systems partially offset by $87 million primarily at Broadband Communication Systems, consistent with the change in sales described above and $16 million at Commercial Aviation Solutions.

Sales from services increased by $100 million to $1,522 million for the 2018 first half, compared to $1,422 million for the 2017 first half. Sales from services represented approximately 31% of consolidated net sales for the 2018 first half compared to 30% for the 2017 first half. The increase in sales for services is due to: (1) higher volume for the Presidential Aircraft Recap Program, commercial and military training and simulation, operational and sustainment on U.S. Army satellite communication systems, and support services on airport screening devices and (2) business acquisitions. See reportable segment results below for additional detail.

Cost of sales from services increased by $93 million to $1,110 million for the 2018 first half, compared to $1,017 million for the 2017 first half. The increase was primarily due to higher services cost of sales of $34 million at Broadband Communication Systems, $18 million at Commercial Aviation Solutions, $17 million due to business acquisitions, net of divestitures, $12 million primarily for Link Training & Simulation and $12 million at Mission Integration, consistent with the change in sales from products described above.

Operating income and operating margin: Consolidated operating income for the 2018 second quarter increased by $27 million, or 9%, compared to the 2017 second quarter. Segment operating income for the 2018 second quarter decreased by $21 million, or 7%, compared to the 2017 second quarter. Segment operating margin decreased by 170 basis points to 10.6% for the 2018 second quarter, compared to 12.3% for the 2017 second quarter. The 2017 second quarter includes a pre-tax gain of $42 million ($26 million after-tax, or $0.33 per share) on the sale of the company’s property in San Carlos, California in connection with the consolidation of the EDD/ETI Traveling Wave Tube (TWT) businesses in the Communication Systems segment. Excluding this gain, segment operating margin would have been 10.6% for the 2017 second quarter. Lower severance and restructuring costs, primarily at Communication Systems, were largely offset by higher research and development costs, primarily at Sensor Systems.

Consolidated operating income for the 2018 first half increased by $41 million, or 8%, compared to the 2017 first half. Segment operating income for the 2018 first half decreased by $7 million, or 1%, compared to the 2017 first half. Segment operating margin decreased by 70 basis points to 10.6% for the 2018 first half from 11.3% for the 2017 first half. Excluding the gain on sale of the company's property in San Carlos, California, segment operating margin would have been 10.4% for the 2017 first half. Improved contract performance primarily for the Electronic Systems and Aerospace Systems segments, and lower severance and restructuring costs primarily at Communication Systems, were partially offset by higher research and development costs, primarily at Sensor Systems. See the reportable segment results below for additional discussion of sales and operating margin trends.

Effective income tax rate: The effective tax rate for the 2018 second quarter was 20.3%. Excluding the sale of the Crestview & TCS Businesses, the debt retirement charge and the related income tax impacts of each, the effective income tax rate would have decreased to 15.6% from 23.2% for the quarterly period ended June 30, 2017. The decrease was primarily driven by an increase in tax benefits from equity compensation and the reduction of the U.S. corporate income tax rate enacted under U.S. Tax Reform.

The effective tax rate for the 2018 first half was 15.9%. Excluding the sale of the Crestview & TCS Businesses, the debt retirement charge and the related income tax impacts of each, the effective income tax rate would have decreased to 13.5% from 22.3% for the same period last year. The decrease was primarily driven by trends similar to the 2018 second quarter.

Net income from continuing operations attributable to L3 and diluted EPS from continuing operations: Net income from continuing operations attributable to L3 for the 2018 second quarter decreased 3% to $185 million, compared to $190 million for the 2017 second quarter. Diluted EPS from continuing operations was $2.33 for the 2018 second quarter, compared to $2.39 for the 2017 second quarter. The 2018 second quarter includes: (1) a gain of $0.31 per diluted share related to the sale of the Crestview & TCS Businesses and (2) a debt retirement charge of $0.45 per diluted share. The 2017 second quarter includes a gain of $0.33 per diluted share in connection with the sale of the company's property in San Carlos, California.

Net income from continuing operations attributable to L3 for the 2018 first half increased 8% to $372 million, compared to $343 million for the 2017 first half. Diluted EPS from continuing operations was $4.67 for the 2018 first half, compared to $4.32 for the 2017 first half. The 2018 first half includes: (1) a gain of $0.31 per diluted share related to the sale of the Crestview & TCS Businesses and (2) a debt retirement charge of $0.45 per diluted share. The 2017 first half includes a gain of $0.33 per diluted share in connection with the sale of the company's property in San Carlos, California.

Diluted weighted average common shares outstanding: Diluted weighted average common shares outstanding for the 2018 second quarter decreased slightly compared to the 2017 second quarter due to changes in the dilutive impact of common share equivalents.

Diluted weighted average common shares outstanding for the 2018 first half increased slightly compared to the 2017 first half due to changes in the dilutive impact of common share equivalents, primarily caused by a higher L3 stock price.

Reportable Segment Results of Operations

The table below presents selected data by reportable segment reconciled to consolidated totals.

	Second Quarter Ended		First Half Ended	
	June 29, 2018	June 30, 2017	June 29, 2018	June 30, 2017
	(dollars in millions)			
Net sales: [1]				
Electronic Systems	$ 812	$ 767	$ 1,597	$ 1,505
Aerospace Systems	741	679	1,427	1,375
Communication Systems	554	550	1,047	1,087
Sensor Systems	476	389	883	739
Consolidated net sales	$ 2,583	$ 2,385	$ 4,954	$ 4,706
Operating income:				
Electronic Systems	$ 113	$ 103	$ 221	$ 193
Aerospace Systems	61	56	118	112
Communication Systems	45	84	82	126
Sensor Systems	54	51	103	100
Total segment operating income	273	294	524	531
Gain on sale of the Crestview and TCS Businesses	48	—	48	—
Consolidated operating income	$ 321	$ 294	$ 572	$ 531
Operating margin:				
Electronic Systems	13.9%	13.4%	13.8%	12.8%
Aerospace Systems	8.2%	8.2%	8.3%	8.1%
Communication Systems	8.1%	15.3%	7.8%	11.6%
Sensor Systems	11.3%	13.1%	11.7%	13.5%
Total segment operating margin	10.6%	12.3%	10.6%	11.3%
Gain related to sales of business	1.8%	—	0.9%	—
Consolidated operating margin	12.4%	12.3%	11.5%	11.3%

(1) Net sales after intercompany eliminations.

Electronic Systems

	Second Quarter Ended			First Half Ended		
	June 29, 2018	June 30, 2017	Increase	June 29, 2018	June 30, 2017	Increase
			(dollars in millions)			
Net sales	$ 812	$ 767	6 %	$ 1,597	$ 1,505	6 %
Operating income	$ 113	$ 103	10 %	$ 221	$ 193	15 %
Operating margin	13.9%	13.4%	50 bpts	13.8%	12.8%	100 bpts

Electronic Systems net sales for the 2018 second quarter increased by $45 million, or 6%, compared to the 2017 second quarter. Organic sales increased by $32 million, or 4%, compared to the 2017 second quarter. Organic sales exclude $13 million of sales increases related to business acquisitions. Organic sales increased by: (1) $20 million for Precision Engagement Systems primarily due to increased deliveries and volume on fuzing and ordnance and guidance systems products primarily to the U.S. Army and (2) $12 million for Link Training & Simulation due to higher deliveries of training systems for the U.S. Army's Flight School XXI program.

Electronic Systems operating income for the 2018 second quarter increased by $10 million, or 10%, compared to the 2017 second quarter. Operating margin increased by 50 basis points to 13.9% due to acquisitions.

Electronic Systems net sales for the 2018 first half increased by $92 million, or 6%, compared to the 2017 first half. Organic sales increased by $78 million, or 5%, compared to the 2017 first half. Organic sales exclude $24 million of sales increases related to business acquisitions and $10 million of sales declines related to business divestitures. Organic sales increased by: (1) $49 million for Precision Engagement Systems due to increased deliveries and volume on fuzing and ordnance and guidance systems products primarily to the U.S. Army, (2) $21 million for Security & Detection Systems due to increased deliveries for airport screening devices primarily to the U.S. Transportation Security Administration (TSA) and higher volume on an industrial automation control contract for a commercial customer and (3) $8 million primarily for Link Training & Simulation due to higher volume for training systems to the U.S. Navy.

Electronic Systems operating income for the 2018 first half increased by $28 million, or 15%, compared to the 2017 first half. Operating margin increased by 100 basis points to 13.8%. Operating margin increased by 160 basis points primarily due to improved contract performance across all business areas and 60 basis points due to higher margins related to acquisitions. These increases were partially offset by 120 basis points primarily due to sales mix changes at Power & Propulsion Systems, Precision Engagement Systems and Security & Detection Systems.

Aerospace Systems

	Second Quarter Ended			First Half Ended		
	June 29, 2018	June 30, 2017	Increase	June 29, 2018	June 30, 2017	Increase
			(dollars in millions)			
Net sales	$ 741	$ 679	9 %	$ 1,427	$ 1,375	4 %
Operating income	$ 61	$ 56	9 %	$ 118	$ 112	5 %
Operating margin	8.2%	8.2%	— bpts	8.3%	8.1%	20 bpts

Aerospace Systems net sales for the 2018 second quarter increased by $62 million, or 9%, compared to the 2017 second quarter. Sales increased primarily due to the procurement of one U.S. Air Force (USAF) Compass Call Recap aircraft to begin missionization.

Aerospace Systems operating income for the 2018 second quarter increased by $5 million, or 9%, compared to the 2017 second quarter. Operating margin was 8.2% for the 2018 and 2017 second quarters. Operating margin increased by 30 basis points due to lower pension costs, which was offset by sales mix changes primarily related to the Compass Call Recap aircraft procurement at Mission Integration.

Aerospace Systems net sales for the 2018 first half increased by $52 million, or 4%, compared to the 2017 first half. Sales increased by: (1) $55 million related to the procurement of one USAF Compass Call Recap aircraft to begin missionization, (2) $42 million due to higher volume related to the Presidential Aircraft Recap Program and (3) $30 million primarily due to higher volume on large Intelligence, Surveillance and Reconnaissance (ISR) aircraft systems for the U.S. Department of Defense (DoD). These increases were partially offset by lower volume of: (1) $47 million related to international aircraft modifications primarily the Australian Defence Force C-27J aircraft and (2) $28 million primarily on ISR aircraft systems for foreign military customers as contracts near completion.

Aerospace Systems operating income for the 2018 first half increased by $6 million, or 5%, compared to the 2017 first half. Operating margin increased by 20 basis points to 8.3%. Operating margin increased by 50 basis points due to favorable contract performance adjustments and 30 basis points due to lower pension costs. These increases were partially offset by sales mix changes at Mission Integration.

Communication Systems

	Second Quarter Ended			First Half Ended		
	June 29, 2018	June 30, 2017	Increase/ (decrease)	June 29, 2018	June 30, 2017	Decrease
			(dollars in millions)			
Net sales	$ 554	$ 550	1 %	$ 1,047	$ 1,087	(4) %
Operating income	$ 45	$ 84	(46) %	$ 82	$ 126	(35) %
Operating margin	8.1%	15.3%	(720) bpts	7.8%	11.6%	(380) bpts

Communication Systems net sales for the 2018 second quarter increased by $4 million, or 1%, compared to the 2017 second quarter. Sales increased by $33 million for Space & Power Systems due to higher volume on power devices for commercial and military satellites. The increase was partially offset by $29 million due to lower production volume for Unmanned Aerial Vehicle (UAV) communication systems for the DoD in Broadband Communication Systems.

Communication Systems operating income for the 2018 second quarter decreased by $39 million, or 46%, compared to the 2017 second quarter. Operating margin decreased by 720 basis points to 8.1%. Operating margin decreased by: (1) 770 basis points due to a pre-tax gain of $42 million related to the sale of the company's property in San Carlos, California in connection with the consolidation of the EDD/ETI TWT businesses in the 2017 second quarter that did not recur and (2) 170 basis points primarily due to lower volume at Broadband Communication Systems. These decreases were partially offset by 220 basis points due to lower severance and restructuring costs of $6 million and lower operating costs of $6 million for the 2018 second quarter compared to the 2017 second quarter, primarily at Space & Power Systems.

Communication Systems net sales for the 2018 first half decreased by $40 million, or 4%, compared to the 2017 first half. Sales decreased by $64 million primarily driven by lower production volume for UAV communication systems for the DoD in Broadband Communication Systems. The decrease was partially offset by $24 million primarily for Space & Power Systems due to higher volume on power devices for commercial and military satellites.

Communication Systems operating income for the 2018 first half decreased by $44 million, or 35%, compared to the 2017 first half. Operating margin decreased by 380 basis points to 7.8%. Operating margin decreased by: (1) 390 basis points due to the gain on the sale of the company's property in San Carlos, California, in the 2017 first half that did not recur and (2) 160 basis points primarily due to lower volume at Broadband Communication Systems and Space & Power Systems. These decreases was partially offset by 170 basis points due to lower severance and restructuring costs of $10 million and lower operating costs of $9 million for the 2018 first half compared to the 2017 first half, primarily at Space & Power Systems.

Sensor Systems

	Second Quarter Ended			First Half Ended		
	June 29, 2018	June 30, 2017	Increase/ (decrease)	June 29, 2018	June 30, 2017	Increase/ (decrease)
			(dollars in millions)			
Net sales	$ 476	$ 389	22 %	$ 883	$ 739	19 %
Operating income	$ 54	$ 51	6 %	$ 103	$ 100	3 %
Operating margin	11.3%	13.1%	(180) bpts	11.7%	13.5%	(180) bpts

Sensor Systems net sales for the 2018 second quarter increased by $87 million, or 22%, compared to the 2017 second quarter. Organic sales increased by $80 million, or 21%, compared to the 2017 second quarter. Organic sales exclude $7 million of sales increases related to business acquisitions. Organic sales increased by: (1) $34 million for Warrior Systems due to increased deliveries of night vision products, primarily to foreign military customers, (2) $16 million due to increased deliveries of airborne turret systems, primarily to foreign militaries, (3) $14 million for Maritime Systems primarily due to increased volume for new commercial contracts, (4) $11 million primarily for Advanced Programs due to higher volume for mission management systems and (5) $5 million for Space Systems due to higher volume for optical systems, and space electronics and infrared detection products to the U.S. military.

Sensor Systems operating income for the 2018 second quarter increased by $3 million, or 6%, compared to the 2017 second quarter. Operating margin decreased by 180 basis points to 11.3%. Operating margin decreased by 330 basis points due to higher research and development costs related to imaging, space and undersea growth investments and 50 basis points due to lower margins related to acquisitions. These decreases were partially offset primarily by higher volume, which increased operating margin by 200 basis points.

Sensor Systems net sales for the 2018 first half increased by $144 million, or 19%, compared to the 2017 first half. Organic sales increased by $127 million, or 17%, compared to the 2017 first half. Organic sales exclude $17 million of sales increases related to business acquisitions. Organic sales increased by: (1) $34 million for Warrior Systems due to increased deliveries of night vision products primarily to foreign military customers, (2) $31 million due to increased deliveries of airborne turret systems, primarily to foreign militaries, (3) $23 million for Space Systems due to higher volume for optical systems, and space electronics and infrared detection products to the U.S. military, (4) $17 million for Intelligence & Mission Systems due to increased deliveries of electronic warfare countermeasures products primarily to foreign militaries, (5) $17 million for Maritime Systems primarily due to higher volume for compact towed array products to the U.S. Navy and (6) $5 million for Advanced Programs due to higher volume for mission management systems.

Sensor Systems operating income for the 2018 first half increased by $3 million, or 3%, compared to the 2017 first half. Operating margin decreased by 180 basis points to 11.7% due to trends similar to the 2018 second quarter.

Liquidity and Capital Resources

Anticipated Sources and Uses of Cash Flow

At June 29, 2018, we had total cash and cash equivalents of $1,366 million as compared to $662 million at December 31, 2017. While no amounts of the cash and cash equivalents are considered restricted, $311 million of cash was held by our foreign subsidiaries at June 29, 2018. The repatriation of cash held in non-U.S. jurisdictions is subject to local capital requirements. Our primary sources of liquidity are cash flow generated from operations, cash on hand and our five-year unsecured $1 billion revolving credit facility (Credit Facility), which we entered into on October 31, 2016. At June 29, 2018, we had the full availability of our Credit Facility. We generated $178 million of net cash from operating activities from continuing operations.

We currently believe that our cash from operating activities generated during the year, together with our cash on hand and available borrowings under our Credit Facility, will be adequate for the foreseeable future to meet our anticipated uses of cash flow, primarily redemption of the remaining 2019 Senior Notes and 2020 Senior Notes, working capital, capital expenditures, defined benefit plan contributions, commitments, contingencies, research and development expenditures, select business acquisitions (depending on the size), program and other discretionary investments, interest payments, income tax payments, L3 dividends and share repurchases.

Balance Sheet

We made certain presentation changes to our consolidated balance sheet on January 1, 2018 to comply with ASC 606. The components of contracts in process as reported under ASC 605, which included unbilled contract receivables and inventoried contract costs, have been reclassified to contract assets and inventories, respectively, after certain adjustments described below under ASC 606. The adoption of ASC 606 resulted in an increase in unbilled contract receivables (referred to as contract assets under ASC 606) primarily from converting contracts previously applying the units-of-delivery method to the cost-to-cost method with a corresponding reduction in inventoried contract costs. The remainder of inventoried contract costs, primarily related to inventories not controlled by our customers, were reclassified to inventories. Additionally, under ASC 606, we capitalize costs to fulfill a contract (i.e., non-recurring costs for contract-related activities that do not transfer a good or service to the customer) and costs to obtain a contract (i.e., commissions paid to third-party agents or representatives) to prepaid expense and other current assets or other assets (non-current). We previously accounted for costs to fulfill a contract either as inventoried contract costs or expensed them as incurred. Costs to obtain a contract were generally expensed as incurred. Advance payments and billings in excess of costs and deferred revenue, previously classified in other current liabilities, have been combined and are presented as contract liabilities.

Billed receivables increased by $140 million to $863 million at June 29, 2018, from $723 million at December 31, 2017, primarily due to the timing of billings and collections for Warrior Sensor Systems, Mission Integration, Security & Detection Systems and Commercial Aviation Solutions.

Contract assets increased by $262 million to $1,611 million at June 29, 2018, from $1,349 million at January 1, 2018, primarily due to sales exceeding billings for Mission Integration, Link Training & Simulation, Space & Power Systems, Advanced Communications and Power & Propulsion Systems, partially offset by $6 million for foreign currency translation adjustments.

Inventories increased by $545 million to $934 million at June 29, 2018 from $389 million at December 31, 2017. The increase consisted of: (1) $537 million due to reclassifications related to the adoption of ASC 606, and (2) $8 million primarily for Security & Detection Systems, Airborne Sensor Systems and Warrior Sensor Systems to support customer demand.

The increase in prepaid expenses and other current assets was primarily due to milestone payments for aircraft procurements related to U.S. and foreign government contracts at Mission Integration and annual prepaid insurance payments.

Goodwill increased by $36 million to $6,651 million at June 29, 2018 from $6,615 million at December 31, 2017. The table below presents the changes in goodwill by segment.

	Electronic Systems	Aerospace Systems	Communication Systems	Sensor Systems	Consolidated Total
			(in millions)		
December 31, 2017	$ 2,813	$ 1,146	$ 1,023	$ 1,633	$ 6,615
Business acquisitions [1]	16	—	—	43	59
Foreign currency translation adjustments	(15)	(3)	—	(5)	(23)
June 29, 2018	$ 2,814	$ 1,143	$ 1,023	$ 1,671	$ 6,651

(1) The increase for the Electronic Systems segment was due to the acquisition of the Latitude Engineering business and the purchase price allocation adjustments for the Doss Aviation and G-Air business acquisitions. The increase for the Sensor Systems segment was due to the acquisition of the Applied Defense Solutions business and the purchase price allocation adjustments for the Adaptive Methods and Kigre business acquisitions.

The decrease in identifiable intangible assets was primarily due to amortization expense and by $2 million for foreign currency translation adjustments, partially offset by $20 million of intangible assets recognized for the Applied Defense Solutions and Latitude Engineering business acquisitions and purchase price allocation adjustments for Doss Aviation.

The increase in other assets from January 1, 2018 was primarily due to investments in nonconsolidated affiliates made during the 2018 first half.

The increase 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.

Accrued employment costs decreased primarily due to the payment of annual management incentive bonuses during the 2018 first half, partially offset by higher accrued vacation pay due to timing.

Contracts liabilities decreased by $11 million to $554 million at June 29, 2018 from $565 million at January 1, 2018, primarily due to advances received by Mission Integration for aircraft procurements related to U.S. and foreign government contracts.

Income taxable payable increased primarily due to the Vertex Aerospace and Crestview & TCS Businesses divestitures.

Deferred income taxes increased primarily due to: (1) the amortization of certain goodwill and other identifiable assets for tax purposes, (2) U.S. Tax Reform and (3) equity compensation.

Statement of Cash Flows

2018 first half Compared with the 2017 first half

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

	First Half Ended		
	June 29, 2018	June 30, 2017	Cash Flow Increase/ (decrease)
		(in millions)	
Net cash from (used in) provided from operating activities from continuing operations	$ 178	$ 315	$ (137)
Net cash from (used in) investing activities from continuing operations	330	(207)	537
Net cash from (used in) financing activities from continuing operations	197	(130)	327

Operating Activities

We generated $178 million of cash from operating activities during the 2018 first half, a decrease of $137 million compared with $315 million generated during the 2017 first half. The decrease in the 2018 first half was primarily due to higher working capital requirements, primarily contract assets and milestone payments for aircraft procurements related to U.S. and foreign government contracts. The net cash from changes in operating assets and liabilities is further discussed above under "Liquidity and Capital Resources - Balance Sheet".

Investing Activities

During the 2018 first half, we generated $330 million of cash from investing activities, which included $535 million of cash received from the sale of Vertex Aerospace and Crestview & TCS Businesses, partially offset by $52 million for the acquisition of Applied Defense Solutions, $15 million for the acquisition of Latitude Engineering, $108 million for capital expenditures and $30 million from investments in nonconsolidated affiliates, primarily Peak Nano. During the 2017 first half, we used $207 million of cash from investing activities, which included $191 million used from business acquisitions and $96 million for capital expenditures, partially offset by $65 million of cash generated substantially all from the sale of the property in San Carlos, California and $16 million for business divestitures.

Financing Activities

Debt

At June 29, 2018, total outstanding debt was $3,900 million, compared to $3,330 million at December 31, 2017, all of which was senior debt. The increase was due to the issuance of $1,782 million of senior notes, partially offset by the completion of our tender offers for $1,215 million in carrying value of senior notes. See tables below for additional details. At June 29, 2018, there were no borrowings or letters of credit outstanding under our Credit Facility. Accordingly, we had the full availability of our $1 billion facility for future borrowings. We also had $386 million of outstanding standby letters of credit with financial institutions covering performance and financial guarantees per contractual requirements with certain customers at June 29, 2018. These standby letters of credit may be drawn upon in the event that we do not perform on certain of our contractual requirements. At June 29, 2018, our outstanding debt matures between October 15, 2019 and June 15, 2028. See Note 11 to our unaudited condensed consolidated financial statements contained in this quarterly report for the components of our debt at June 29, 2018.

We consider our credit rating as an important element of our capital allocation strategy, and, while no assurances can be given, we intend to maintain our investment grade credit rating. Our senior unsecured credit rating from both Standard and Poor's and Fitch Ratings is BBB- with a stable outlook, and our senior unsecured credit rating from Moody's Investors Service is Baa3 with a stable outlook.

Issuance of Senior Notes

On June 6, 2018, L3 issued two series of senior notes, which are unsecured senior obligations of L3. The terms of each series of senior notes are presented in the table below.

Note	Date of Issuance	Amount Issued	Discount[1]	Net Cash Proceeds[2]	Effective Interest Rate	Redemption at Treasury Rate[3][4]
			(dollars in millions)			
3.85% Senior Notes due June 15, 2023 (the 2023 Notes)	June 6, 2018	$ 800	$ 2	$ 792	3.89%	20 bps
4.40% Senior Notes due June 15, 2028 (the 2028 Notes)	June 6, 2018	$ 1,000	$ 1	$ 990	4.41%	25 bps

(1) Bond discounts are recorded as a reduction to the principal amount of the notes and are amortized as interest expense over the term of the notes.

(2) The net cash proceeds of $1,782 million (after deduction of the discount, underwriting expenses and commissions and other related expenses) plus cash on hand were used to fund the concurrent cash tender offers (the Tender Offers) for any and all of $1 billion aggregate principal amount of 5.20% Senior Notes due October 15, 2019 (the 2019 Notes) and $800 million aggregate principal amount of 4.75% Senior Notes due July 15, 2020 (the 2020 Notes) and any related redemption of notes not tendered in the Tender Offers.

(3) The 2023 Notes may be redeemed at any time prior to May 15, 2023 (one month prior to maturity) and the 2028 Notes may be redeemed at any time prior to March 15, 2028 (three months prior to maturity), at the option of L3, in whole or in part, at a redemption price equal to the greater of: (i) 100% of the principal amount, or (ii) the present value of the remaining principal and interest payments discounted to the date of redemption, on a semi-annual basis, at the Treasury Rate (as defined in the indentures governing the senior notes), plus the spread indicated in the table above. In addition, if the 2023 Notes and the 2028 Notes are redeemed at any time on or after May 15, 2023 and March 15, 2028, respectively, the redemption price would be equal to 100% of the principal amount.

(4) Upon the occurrence of a change in control (as defined in the indentures governing the senior notes), each holder of the notes will have the right to require L3 to repurchase all or any part of such holder's notes at an offer price in cash equal to 101% of the aggregate principal amount plus accrued and unpaid interest, if any, to the date of purchase.

Repurchases and Redemptions of Senior Notes

The table below summarizes the 2019 Notes and the 2020 Notes Tender Offers.

Note	Settlement Type	Date Settled	Aggregate Principal	Principal Tendered	Tender Premium	Cash Tendered[1]	Interest	Total Cash Payments	Debt Retirement Charge[2]
						(dollars in millions)			
5.20% Senior Notes due 2019	Tender Offer	June 6, 2018	$ 1,000	$ 683	103.282%	$ 705	$ 5	$ 710	$ 24
4.75% Senior Notes due 2020	Tender Offer	June 6, 2018	$ 800	$ 535	104.092%	$ 557	$ 10	$ 567	$ 24

(1) Excludes $1 million of tender offer fees.

(2) The debt retirement charge includes $1 million of tender offer fees and $3 million which represents the non-cash retirement of associated unamortized debt issue costs and discounts.

On June 6, 2018, we initiated the redemption of the 2019 Notes and the 2020 Notes that remained outstanding subsequent to the expiration of the Tender Offers. On July 6, 2018, we completed the redemption of the 2019 Notes and the 2020 Notes. The terms of the 2019 Notes and the 2020 Notes redemption are presented in the table below.

Note	Settlement Type	Date Settled	Principal Redeemed	Redemption Premium	Cash Payments	Interest	Total Cash Payments	Debt Retirement Charge[1]
					(dollars in millions)			
5.20% Senior Notes due 2019	Redemption	July 6, 2018	$ 317	103.048%	$ 327	$ 4	$ 331	$ 10
4.75% Senior Notes due 2020	Redemption	July 6, 2018	$ 265	103.818%	$ 275	$ 6	$ 281	$ 11

(1) The debt retirement charge includes $1 million which represents the non-cash retirement of associated unamortized debt issue costs and discounts.

Debt Covenants and Other Provisions. The Credit Facility and senior notes contain financial and/or other restrictive covenants. See Note 9 to our audited consolidated financial statements for the year ended December 31, 2017, included in our Annual Report on Form 10-K, for a description of our debt, related financial covenants and cross default provisions. We were in compliance with our financial and other restrictive covenants at June 29, 2018.

Guarantees. The borrowings under the Credit Facility are fully and unconditionally guaranteed by L3 and by substantially all of the material 100% owned domestic subsidiaries of L3 on an unsecured senior basis. The payment of principal and premium, if any, and interest on the senior notes is fully and unconditionally guaranteed, jointly and severally, by L3's material 100% owned domestic subsidiaries that guarantee any of its other indebtedness. The guarantees of the Credit Facility and the senior notes rank pari passu with each other.

Equity

Repurchases of L3's common stock under the current share repurchase program are made from time to time at management's discretion, in accordance with applicable U.S. Federal securities laws. The timing and actual number of shares to be repurchased in the future will depend on a variety of factors, including, but not limited to, our financial position, earnings, legal requirements, other investment opportunities (including acquisitions) and market conditions. All share repurchases of L3's common stock have been recorded as treasury shares.

The table below presents our repurchases of L3's common stock during the 2018 first half.

	Total Number of Shares Purchased	Average Price Paid Per Share	Treasury Stock
			(at cost in millions)
January 1 — March 30, 2018	581,229	$ 203.93	$ 119
March 31 — June 29, 2018	878,188	$ 192.35	$ 168

On May 8, 2017, L3's Board of Directors approved a share repurchase program that authorizes L3 to repurchase up to an additional $1.5 billion of its common stock. The program became effective on July 1, 2017 and has no set expiration date. From

June 30, 2018 through July 20, 2018, we repurchased 172,082 shares of our common stock at an average price of $193.85 per share for an aggregate amount of $34 million.

During the 2018 first half, our Board of Directors authorized the quarterly cash dividends in the table below.

Date Declared	Record Date	Cash Dividend Per Share	Total Cash Dividends Declared	Date Paid
			(in millions)	
February 12, 2018	March 1, 2018	$ 0.80	$ 63 [1]	March 15, 2018
May 8, 2018	May 18, 2018	$ 0.80	$ 63 [1]	June 15, 2018

(1) During the 2018 first half, we paid $128 million of cash dividends, including a $2 million net reduction of previously accrued dividends for employee-held stock awards.

On July 10, 2018, our Board of Directors declared a quarterly cash dividend of $0.80 per share, payable on September 17, 2018 to shareholders of record at the close of business on August 17, 2018.

Legal Proceedings and Contingencies

For a discussion of legal proceedings and contingencies that could impact our results of operations, financial condition or cash flows, see Note 19 to our unaudited condensed consolidated financial statements contained in this quarterly report.

Forward-Looking Statements

Certain of the matters discussed in this report, including information regarding the Company's 2018 financial outlook, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements other than historical facts may be forward-looking statements, such as "may," "will," "should," "likely," "projects," "expects," "anticipates," "intends," "plans," "believes," "estimates," and similar expressions are used to identify forward-looking statements. We caution investors that these statements are subject to risks and uncertainties many of which are difficult to predict and generally beyond our 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 DoD and other major customers; the U.S. Government fiscal situation; changes in DoD budget levels and spending priorities; 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; the outcome of litigation matters; results of audits by U.S. Government agencies and of ongoing governmental investigations; our significant amount of debt and the restrictions contained in our debt agreements and actions taken by rating agencies that could result in a downgrade of our debt; 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; the risk that our commercial aviation products and services businesses are affected by a downturn in global demand for air travel or a reduction in commercial aircraft OEM (Original Equipment Manufacturer) production rates; 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 including currency risks and compliance with foreign laws; our extensive use of fixed-price type revenue arrangements; the rapid change of technology and high level of competition in which our businesses participate; risks relating to technology and data security; our introduction of new products into commercial markets or our investments in civil and commercial products or companies; the impact on our business of improper conduct by our employees, agents or business partners; goodwill impairments and the fair values of our assets; and the ultimate resolution of contingent matters, claims and investigations relating to acquired businesses, and the impact on the final purchase price allocations.

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 "Part II — Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2017 and in this quarterly report on Form 10-Q, and any material updates to these factors contained in any of our future filings.

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 3.

QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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," of our Annual Report on Form 10-K for the year ended December 31, 2017 for a discussion of our exposure to market risks. There were no material changes to our disclosure about market risks during the 2018 first half. See Notes 16 and 18 to our unaudited condensed consolidated financial statements contained in this quarterly report for the aggregate fair values and notional amounts of our foreign currency forward contracts at June 29, 2018.

ITEM 4.

CONTROLS AND PROCEDURES

Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our reports that we file or submit under the Securities Exchange Act of 1934 related to L3 Technologies, Inc. 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, Chief Executive Officer and President and our Senior Vice President and Chief Financial Officer 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, Chief Executive Officer and President 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 June 29, 2018. Based upon that evaluation, our Chairman, Chief Executive Officer and President and our Senior Vice President and Chief Financial Officer concluded that, as of June 29, 2018, the design and operation of our disclosure controls and procedures were effective to accomplish their objectives at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 29, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1.

LEGAL PROCEEDINGS

The information required with respect to this item can be found in Note 19 to our unaudited condensed consolidated financial statements contained in this quarterly report and is incorporated by reference into this Item 1.

ITEM 1A.

RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, and “Part II — Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Overview and Outlook — Business Environment” in our Annual Report on Form 10-K, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors disclosed in “Part I — Item 1A — Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017. The risks described in our Annual Report on Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 2.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Issuer Purchases of Equity Securities

The following table provides information about repurchases of L3's common stock made during the 2018 second quarter. Repurchases are made from time to time at management's discretion in accordance with applicable U.S. Federal securities laws. All share repurchases of L3's common stock have been recorded as treasury shares.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet be Purchased Under the Plans or Programs [(1)]
				(in millions)
March 31 — April 30, 2018	131,554	$ 207.75	131,554	$ 1,201
May 1 — May 31, 2018	603,882	188.80	603,882	1,087
June 1 — June 29, 2018	142,752	193.19	142,752	1,059
Total	878,188	192.35	878,188	

(1) The share repurchases described in the table above were made pursuant to the $1.5 billion share repurchase program authorized by L3's Board of Directors on May 8, 2017. The program became effective on July 1, 2017 and has no set expiration date.

ITEM 5.

OTHER INFORMATION

On July 25, 2018, following a periodic review of Company's executive severance arrangements conducted by the Compensation Committee of the Board of Directors of the Company in consultation with its independent compensation consultant, Frederic W. Cook, the following actions were taken consistent with prevailing market practices:

1. Adoption of a new Executive Severance Plan to provide for severance benefits in the event of qualified terminations occurring outside a change in control of the Company (the "non-CIC Severance Plan");

2. Approval of amendments to the Company's existing Amended and Restated Change in Control Severance Plan (the "CIC Severance Plan") regarding the calculation of an employee's "average bonus" for purposes of that plan; and

3. Approval of "double triggered" vesting provisions with respect to a portion of the Company's outstanding long-term performance awards.

Below is a brief summary of the material terms of the non-CIC Severance Plan, the amendments to the CIC Severance Plan and the changes to the award agreements governing the Company's outstanding long-term performance awards.

Non-CIC Severance Plan

The newly adopted non-CIC Severance Plan provides the Company's CEO, executive officers and certain other senior executives with the following severance payments and benefits upon a termination of employment initiated by the Company without "Cause" (as defined in the non-CIC Severance Plan):

- A lump sum cash payment equal to two times (in the case of the CEO) or one times (in the case of other senior executives) the participant's annualized salary and target bonus at the time of termination;

- In the event the termination occurs after the end of the second quarter of the Company's fiscal year, a pro-rated bonus based on actual performance for the year of termination;

- Continued health care coverage for a period of 18 months following the participant's termination of employment at the same cost charged to similarly-situated active employees; and

- Outplacement assistance for up to 12 months.

A participant's receipt of severance payments and benefits under the non-CIC Severance Plan is conditioned upon his or her execution of an effective release of claims against the Company and agreement to abide by non-competition, non-solicitation, non-disparagement and post-employment cooperation covenants.

Amendments to Existing Change in Control Severance Arrangements

Under the existing CIC Severance Plan, a portion of a plan participant's severance benefits, in the event of a qualifying termination of employment, is based upon a multiple of the employee's "average bonus" as defined in the CIC Severance Plan. The recently approved amendments to the CIC Severance Plan provide that in the event a plan participant receives an increase in cash compensation related to a promotion in title at any time since the beginning of the performance period upon which the "average bonus" determination is normally measured, the bonus amount to be used in calculating the severance benefits payable under the CIC Severance Plan shall be the greater of (1) the "average bonus" as normally determined under the CIC Severance Plan and (2) the "target bonus" as defined under the CIC Severance Plan. The recently approved amendments further provide that in the case of a plan participant who is terminated in the fiscal year in which he or she is first hired, the bonus amount to be used in calculating the severance benefits payable under the CIC Severance Plan shall be the participant's "target bonus".

Changes to Long-Term Performance Award Agreements

Under the Company's existing long-term performance award agreements, in the event of a change in control during the relevant performance period, a pro-rata portion of the outstanding awards will immediately vest based on the portion of the performance period completed as of the change in control date, and the remaining portion of such awards will be forfeited. As amended, the remaining portion of such awards will instead be subject to "double trigger" vesting provisions under which they would remain outstanding and continue to vest subject to continued employment following the change of control, with accelerated vesting in the event of certain qualifying terminations of employment following the change in control.

This summary of the non-CIC Severance Plan, the amendments to the CIC Severance Plan and the amended award agreements governing the Company's outstanding long-term performance awards does not purport to be complete and is qualified in its entirety by reference to the text of the non-CIC Severance Plan, the amended CIC Severance Plan, the Global Amendment to Performance Unit Agreements and the Global Amendment to Performance Cash Agreements, which are filed as Exhibits 10.2, 10.3, 10.4 and 10.5, respectively, to this Quarterly Report on Form 10-Q.

ITEM 6.

EXHIBITS

For a list of exhibits, see the Exhibit Index in this Form 10-Q.

EXHIBIT INDEX

Exhibits identified in parentheses below are on file with the SEC and are incorporated herein by reference to such previous filings.

Exhibit No.	Description of Exhibit
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 Registrant's Quarterly Report on Form 10-Q for the period ended September 28, 2012 (File No. 333-46983)).
+2.2	Stock Purchase Agreement, dated as of December 7, 2015, by and among L-3 Communications Corporation, CACI International Inc and CACI, Inc.-Federal (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 11, 2015 (File No. 333-46983)).
+2.3	Stock and Asset Purchase Agreement, dated as of May 1, 2018, by and among L-3 Communications Integrated Systems L.P., L3 Technologies, Inc. and 450 Madison Acquireco LLC (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on May 2, 2018 (File No. 001-37975)).
3.1	Restated Certificate of Incorporation of L3 Technologies, Inc. (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on January 3, 2017 (File No. 001-37975)).
3.2	Amended and Restated Bylaws of L3 Technologies, Inc. (incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on February 13, 2018 (File No. 333-46983)).
4.1	Form of Common Stock Certificate of L3 Technologies, Inc. (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016 (File No. 001-37975)).
4.2	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 Registrant's Current Report on Form 8-K dated May 24, 2010 (File No. 333-46983)).
4.3	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 Registrant's Current Report on Form 8-K dated February 8, 2011 (File No. 333-46983)).
4.4	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 Registrant's Current Report on Form 8-K dated November 22, 2011 (File No. 333-46983)).
4.5	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 (incorporated by reference to Exhibit 4.12 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2011 (File No. 333-46983)).
4.6	Fifth Supplemental Indenture, dated as of May 28, 2014, 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 Registrant's Current Report on Form 8-K dated May 28, 2014 (File No. 333-46983)).
4.7	Sixth Supplemental Indenture, dated as of June 21, 2016, 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 L-3 Communications Corporation's Registration Statement on Form S-3ASR filed on June 21, 2016 (File No. 333-212152)).
4.8	Seventh Supplemental Indenture, dated as of October 31, 2016, 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 4.12 of the Registrant's Annual Report on Form 10-K for the period ended December 31, 2016 (File No. 001-37975)).
4.9	Eighth Supplemental Indenture, dated as of December 5, 2016, 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 4.6 to the Registrant's Current Report on Form 8-K dated December 5, 2016 (File No. 333-46983)).
4.10	Ninth Supplemental Indenture, dated as of March 30, 2018 among L3 Technologies, Inc., The Bank of New York Mellon Trust Company, N.A., as Trustee, and the guarantors named therein (incorporated by reference to Exhibit 4.15 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 30. 2018 (File No. 001-37975)).
4.11	Tenth Supplemental Indenture, dated as of June 6, 2018, among L3 Technologies, Inc., The Bank of New York Mellon Trust Company, N.A., as Trustee, and the guarantors named therein (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on June 6, 2018 (File No. 001-37975)).

*†10.1	Form of L3 Technologies, Inc. 2008 Long Term Performance Plan Deferred Stock Unit Agreement (2018 Non-Employee Directors Annual Equity Award Version).
*†10.2	L3 Technologies, Inc. Executive Severance Plan.
*†10.3	L3 Technologies, Inc. Amended and Restated Change in Control Severance Plan.
*†10.4	Global Amendment to Performance Unit Agreements dated as of July 25, 2018.
*†10.5	Global Amendment to Performance Cash Award Agreements dated as of July 25, 2018.
**11	L3 Technologies, Inc. Computation of Basic Earnings Per Share and Diluted Earnings Per Common Share.
*31.1	Certification of Chairman, Chief Executive Officer and President 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 15 to the unaudited condensed consolidated financial statements as of June 29, 2018 contained in this quarterly report in accordance with the provisions of ASC 260, *Earnings Per Share*.

*** Filed electronically with this report.

\+ Certain schedules and exhibits to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. The descriptions of the omitted schedules and exhibits are contained within the relevant agreement. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.

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

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than 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 the Company 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.

SIGNATURE

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 thereunto duly authorized.

L3 TECHNOLOGIES, INC.

By:	/s/ Ralph G. D'Ambrosio
Title:	Senior Vice President and Chief Financial Officer
	(Principal Financial Officer and Authorized Signatory)

Date: July 26, 2018

L3 TECHNOLOGIES, INC.
AMENDED AND RESTATED
2008 LONG TERM PERFORMANCE PLAN
DEFERRED STOCK UNIT AGREEMENT
(Director Award Version 0005)

This Deferred Stock Unit Agreement (this “Agreement”), effective as of the Grant Date (as defined below), is between L3 Technologies, Inc., a Delaware corporation (the “Corporation”), and the Participant (as defined below).

1. Definitions. The following terms shall have the following meanings for purposes of this Agreement:

(a) “Award Letter” shall mean the letter to the Participant attached hereto as Exhibit A.

(b) “Change in Control” means:

(1) The acquisition by any person or group (including a group within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than the Corporation or any of its subsidiaries, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a majority of the combined voting power of the Corporation’s then outstanding voting securities, other than by any employee benefit plan maintained by the Corporation;

(2) The sale of all or substantially all the assets of the Corporation and its subsidiaries taken as a whole;

(3) The consummation of a merger, combination, consolidation, recapitalization, or other reorganization of the Corporation with one or more other entities that are not subsidiaries if, as a result of the consummation of the merger, combination, consolidation, recapitalization or other reorganization, less than 50 percent of the outstanding voting securities of the surviving or resulting corporation shall immediately after the event be beneficially owned in the aggregate by the stockholders of the Corporation immediately prior to the event; or

(4) The election, including the filling of vacancies, during any period of 24 months or less, of 50% or more of the members of the Board of Directors, without the approval of Continuing Directors, as constituted at the beginning of such period. "Continuing Directors" shall mean any director of the Corporation who either (i) is a member of the Board of Directors on the Grant Date, or (ii) is nominated for election to the Board of Directors by a majority of the Board which is comprised of directors who were, at the time of such nomination, Continuing Directors.

(c) “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

(d) “Grant Date” shall mean the “Grant Date” listed in the Award Letter.

(e) “Participant” shall mean the “Participant” listed in the Award Letter.

(f) “Restricted Period” shall mean the period beginning on the Grant Date and expiring on the earlier of (i) the date on which the Participant ceases to be a director of the Corporation or (ii) the occurrence of a Change in Control that constitutes a Section 409A Change in Control Event.

(g) “Deferred Units” shall mean that number of deferred units listed in the Award Letter as “Awards Granted,” as the same may be adjusted from time to time in accordance with the terms hereof.

(h) “Section 409A Change in Control Event” shall mean a change in ownership or effective control of the Corporation, or in the ownership of a substantial portion of the assets of the Corporation, within the meaning of Section 409A(a)(2)(A)(v) of the Code.

(i) “Shares” shall mean a number of shares of the Corporation’s Common Stock, par value $0.01 per share, equal to the number of Deferred Units.

(j) “Specified Employee” shall mean a “specified employee” as defined in Treasury Regulation Section 1.409A-1(i).

(k) “Vesting Date” shall mean the earliest of: (a) the first anniversary of the Grant Date (or if earlier, the date of the Corporation’s first regular annual meeting of stockholders held after the Grant Date), (b) the termination of the Participant’s service as a director of the Corporation by reason of death or permanent disability or (c) the occurrence of a Change in Control (without regard to whether such event constitutes a Section 409A Change in Control Event).

2. *Grant of Units*. The Corporation hereby grants the Deferred Units to the Participant, each of which represents the right to receive one Share at the time set forth in Section 11, subject to the terms, conditions and restrictions set forth in the L3 Technologies, Inc. Amended and Restated 2008 Long Term Performance Plan (as amended from time to time, the “Plan”) and this Agreement.

3. *Deferred Unit Account*. The Corporation shall cause an account (the “Unit Account”) to be established and maintained on the books of the Corporation to record the number of Deferred Units credited to the Participant under the terms of this Agreement. The Participant’s interest in the Unit Account shall be that of a general, unsecured creditor of the Corporation.

4. *Nonalienation of Benefits*. No Participant or beneficiary shall have the power or right to transfer, anticipate, or otherwise encumber the Participant’s interest under this Agreement. The provisions of this Agreement shall inure to the benefit of the Participant and the Participant’s beneficiaries, heirs, executors, administrators or successors in interest.

5. *Vesting; Forfeiture*. Notwithstanding anything in this agreement to the contrary, the Participant shall forfeit the Deferred Units and all of the Participants rights hereunder shall cease (unless otherwise provided for by the Committee in accordance with the Plan) in the event that either: (a) the Restricted Period expires prior to the Vesting Date or (b) the Participant is removed as director of the Corporation for cause.

6. *Dividend Equivalents*. If the Corporation pays a cash dividend or distribution on its Common Stock, the Participant’s Unit Account shall be credited as of the payment date with an additional number of Deferred Units equal to the following calculation: (i) the amount payable per share of Common Stock outstanding as of record date of the dividend or distribution, multiplied by (ii) the number of

Deferred Units credited to the Participant’s Unit Account as of the record date for the dividend or distribution, divided by (iii) the Fair Market Value (as defined in the Plan) of a share of Common Stock as of the payment date.

7. *No Right to Continue as a Director*. Nothing in this Agreement or the Plan shall be interpreted or construed to confer upon the Participant any right to continue as a director of the Corporation, nor shall this Agreement or the Plan interfere in any way with the right of the Corporation or its directors or stockholders to remove the Participant as a director in accordance with the by-laws of the Corporation.

8. *No Rights as a Stockholder*. The Participant’s interest in the Deferred Units shall not entitle the Participant to any rights as a stockholder of the Corporation. The Participant shall not be deemed to be the holder of, or have any of the rights and privileges of a stockholder of the Corporation in respect of, the Shares unless and until such Shares have been issued to the Participant in accordance Section 11.

9. *Adjustments Upon Change in Capitalization*. In the event of any reorganization, merger, consolidation, recapitalization, reclassification, stock split, stock dividend or similar capital adjustment, as a result of which shares of any class shall be issued in respect of outstanding shares of the Corporation’s Common Stock or shares of Corporation’s Common Stock shall be changed into a different number of shares or into another class or classes or into other property or cash, the Deferred Units, the Participant’s Unit Account and/or the Shares shall be adjusted to reflect such event so as to preserve (without enlarging) the value of the award hereunder, with the manner of such adjustment to be determined by the Committee in its sole discretion. This paragraph shall also apply with respect to any extraordinary dividend or other extraordinary distribution in respect of the Corporation’s Common Stock (whether in the form of cash or other property).

10. *General Restrictions*. Notwithstanding anything in this Agreement to the contrary, the Corporation shall have no obligation to issue or transfer the Shares as contemplated by this agreement unless and until such issuance or transfer shall comply with all relevant provisions of law and the requirements of any stock exchange on which the Corporation's shares are listed for trading.

11. *Issuance of Shares*. Upon the expiration of the Restricted Period and subject to Sections 5 and 10 and payment by the Participant of any applicable withholding taxes, the Corporation shall, as soon as reasonably practicable (and in any event within 75 days of the expiration of the Restricted Period), issue the Shares to the Participant, free and clear of all restrictions; provided, that if the expiration of the Restricted Period results from a Section 409A Change in Control Event, then notwithstanding the foregoing, the Shares shall be issued within 30 days of the Section 409A Change in Control Event; provided further, that in the event the Participant is a Specified Employee and the expiration of the Restricted Period does not result from the death of the Participant or a Section 409A Change in Control Event, then notwithstanding the foregoing, the Shares shall be issued as soon as reasonably practicable following (and not prior to) the date that is six months after the expiration of the Restricted Period (and in any event within 75 days after such date). The Corporation shall not be required to deliver any fractional Shares, and may pay, in lieu thereof, the Fair Market Value (as defined in the Plan) thereof as of the date on which the Shares first become issuable under this Section. The Corporation shall pay any costs incurred in connection with issuing the Shares. Upon the issuance of the Shares to the Participant, the Participant’s Unit Account shall be eliminated.

12. *Subsidiary*. As used herein, the term “subsidiary” shall mean, as to any person, any corporation, association, partnership, joint venture or other business entity of which 50% or more of the voting stock or other equity interests (in the case of entities other than corporations), is owned or controlled (directly or indirectly) by that entity, or by one or more of the Subsidiaries of that entity, or by a combination thereof.

13. *Plan Governs*. The Participant hereby acknowledges receipt of a copy of the Plan and agrees to be bound by its terms, all of which are incorporated herein by reference. The Plan shall govern in the event of any conflict between this Agreement and the Plan.

14. *Modification of Agreement*. This Agreement may be not be modified, amended, suspended or terminated, and any terms or conditions may not be waived, without the approval of the Committee. The Committee reserves the right to amend or modify this Agreement at any time without prior notice to any Participant or other interested party; provided, that except as expressly provided hereunder, any such amendment or modification may not adversely affect in any material respect the Participant’s rights or benefits hereunder except for such amendments or modifications as are required by law.

15. *Severability*. Should any provision of this Agreement be held by a court of competent jurisdiction to be unenforceable or invalid for any reason, the remaining provisions of this Agreement shall not be affected by such holding and shall continue in full force in accordance with their terms.

16. *Governing Law*. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof. If the Participant has received a copy of this Agreement (or the Plan or any other document related hereto or thereto) translated into a language other than English, such translated copy is qualified in its entirety by reference to the English version thereof, and in the event of any conflict the English version will govern.

17. *Successors in Interest*. This Agreement shall inure to the benefit of and be binding upon any successor to the Corporation. This Agreement shall inure to the benefit of the Participant or the Participant’s legal representatives. All obligations imposed upon the Participant and all rights granted to the Corporation under this Agreement shall be final, binding and conclusive upon the Participant’s heirs, executors, administrators and successors.

18. *Administration*. The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee shall be final and binding upon the Participant, the Corporation and all other interested persons. No member of the Committee shall be personally liable for any action determination or interpretation made in good faith with respect to the Plan or the Deferred Units. In its absolute discretion, the Board of Directors may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan and this Agreement.

19. *Resolution of Disputes*. Any dispute or disagreement which may arise under, or as a result of, or in any way related to, the interpretation, construction or application of this Agreement shall be determined by the Committee. Any determination made hereunder shall be final, binding and conclusive on the Participant and Corporation for all purposes.

20. *Data Privacy Consent*. As a condition of the grant of the Deferred Units, the Participant hereby consents to the collection, use and transfer of personal data as described in this paragraph. The Participant understands that the Corporation and its subsidiaries hold certain personal information about the Participant, including name, home address and telephone number, date of birth, social security number, salary, nationality, job title, ownership interests or directorships held in the Corporation or its subsidiaries, and details of all deferred units or other equity awards or other entitlements to shares of common stock awarded, cancelled, exercised, vested or unvested ("Data"). The Participant further understands that the Corporation and its subsidiaries will transfer Data among themselves as necessary for the purposes of implementation, administration and management of the Participant's participation in the Plan, and that the Corporation and any of its subsidiaries may each further transfer Data to any third parties assisting the Corporation in the implementation, administration and management of the Plan. The Participant understands that these recipients may be located in the European Economic Area or elsewhere, such as the United States. The Participant hereby authorizes them to receive, possess, use, retain and transfer such Data as may be required for the administration of the Plan or the subsequent holding of shares of common stock on the Participant's behalf, in electronic or other form, for the purposes of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer to a broker or other third party with whom the Participant may elect to deposit any shares of common stock acquired under the Plan. The Participant may, at any time, view such Data or require any necessary amendments to it.

21. *Limitation on Rights; No Right to Future Grants*. By accepting this Agreement and the grant of the Deferred Units contemplated hereunder, the Participant expressly acknowledges that (a) the Plan is discretionary in nature and may be suspended or terminated by the Corporation at any time; (b) the grant of Deferred Units is a one-time benefit that does not create any contractual or other right to receive future grants of deferred units, or benefits in lieu of deferred units; (c) all determinations with respect to future grants of deferred units, if any, including the grant date, the number of Shares granted and the restricted period, will be at the sole discretion of the Corporation; (d) the Participant's participation in the Plan is voluntary; and (e) the future value of the underlying Shares is unknown and cannot be predicted with certainty.

22. *Award Administrator*. The Corporation may from time to time to designate a third party (an "Award Administrator") to assist the Corporation in the implementation, administration and management of the Plan and any Deferred Units granted thereunder, including by sending Award Letters on behalf of the Corporation to Participants, and by facilitating through electronic means acceptance of Deferred Unit Agreements by Participants.

23. *Section 409A*. This Agreement is intended to comply with the provisions of Section 409A of the Code and the regulations promulgated thereunder. Without limiting the foregoing, the Committee shall have the right to amend the terms and conditions of this Agreement in any respect as may be necessary or appropriate to comply with Section 409A of the Code or any regulations promulgated thereunder, including without limitation by delaying the issuance of the Shares contemplated hereunder.

24. *Book Entry Delivery of Shares*. Whenever reference in this Agreement is made to the issuance or delivery of certificates representing one or more Shares, the Corporation may elect to issue or deliver such Shares in book entry form in lieu of certificates.

25. *Acceptance*. This Agreement shall not be enforceable until it has been executed by the Participant. In the event the Corporation has designated an Award Administrator, the acceptance

(including through electronic means) of the Deferred Unit award contemplated by this Agreement in accordance with the procedures established from time to time by the Award Administrator shall be deemed to constitute the Participant's acknowledgment and agreement to the terms and conditions of this Agreement and shall have the same legal effect in all respects of the Participant having executed this Agreement by hand.

By: L3 TECHNOLOGIES, INC.

Christopher E. Kubasik

Christopher E. Kubasik
Chief Executive Officer and President

Ann D. Davidson

Ann D. Davidson
Senior Vice President, General Counsel and Corporate Secretary

Acknowledged and Agreed
as of the date first written above:

Electronic Signature

Participant Signature

Exhibit A

L3 Technologies, Inc.
Deferred Stock Unit Award Notification Letter

Participant: **Participant Name**

Grant Date: **Grant Date**

Awards Granted: **Number of Awards Granted** Deferred Units

L3 TECHNOLOGIES, INC.
EXECUTIVE SEVERANCE PLAN

THIS L3 TECHNOLOGIES, INC. EXECUTIVE SEVERANCE PLAN, effective as of July 25, 2018 (the "Effective Date"), has been established to provide for the payment of severance benefits to Covered Executives (as defined below). This Plan is intended to constitute an employee welfare benefit plan that is a "top-hat" plan under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Section 1. Definitions. Unless the context clearly indicates otherwise, when used in this Plan:

(a) "Affiliate" means, with respect to any entity, any other corporation, organization, association, partnership, sole proprietorship or other type of entity, whether incorporated or unincorporated, directly or indirectly controlling or controlled by or under direct or indirect common control with such entity.

(b) "Annual Compensation" means the sum of (x) the Covered Executive's Base Salary in effect immediately prior to the date of termination of the Covered Executive, and (y) the Covered Executive's Target Bonus.

(c) "Base Salary" means a Covered Executive's annual rate of base salary in effect on the date in question, determined on a "gross wages" basis (i.e. prior to reduction for any employee-elected salary reduction contributions made to an Employer-sponsored non-qualified deferred compensation plan or an Employer-sponsored plan pursuant to Section 401(k) or 125 of the Code), and excluding bonuses, overtime, allowances, commissions, deferred compensation payments and any other extraordinary remuneration.

(d) "Board" means the board of directors of the Company.

(e) "Bonus" means the amount paid or payable to a Covered Executive under the Employer's applicable annual cash incentive bonus plan with respect to a Fiscal Year.

(f) "Cause" means a Covered Executive's:

(1) intentional failure to perform reasonably assigned duties;

(2) dishonesty or willful misconduct in the performance of duties;

(3) violation of any law, corporate policy or the Company's code of ethics, which violation would reasonably be expected to (a) significantly harm the Company's reputation or financial prospects or (b) subject the Company to significant penalties or sanctions; or

(4) refusal to cooperate with the Company in an investigation.

(g) "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(h) "Code" means the Internal Revenue Code of 1986, as amended.

(i) "Committee" means the Compensation Committee of the Company's Board of Directors or, with respect to Section 12 hereof, its designee (which, as of the date of the adoption of this Plan, shall be the L3 Retirement Plan Administrative Committee).

(j) "Company" means L3 Technologies, Inc., a Delaware corporation.

(k) "Covered Executive" means an Employee who, immediately prior to the date of his or her termination, is (1) the Chief Executive Officer of the Company or (2) a Tier I Executive.

(l) "Disability" means a Covered Executive, as a result of incapacity due to physical or mental illness, becomes eligible for benefits under the long-term disability plan or policy of the Company or a subsidiary in which the Covered Executive is eligible to participate.

(m) "Elected Officer" means a person who is elected or appointed as an officer of the Company pursuant to any resolution adopted by Board on or after the date of the most recent annual election of officers.

(n) "Employee" means an employee of the Company or its affiliates who primarily resides and works in the United States.

(o) "Employer" means, with respect to any Covered Executive, the legal entity that employed such Covered Executive prior to any termination of employment contemplated hereunder.

(p) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(q) "Executive Severance Event" means the termination of employment of a Covered Executive that is initiated by the Company for reasons other than for Cause. For purposes of this definition, a Covered Executive's transfer to, or assumption of, another position within the Company or with any affiliate shall not constitute an Executive Severance Event.

(r) "Fiscal Year" means any given fiscal year of the Company.

(s) "Plan" means this L3 Technologies, Inc. Executive Severance Plan, as in effect from time to time.

(t) "Release" means a release to be signed by a Covered Executive in such form as the Company shall reasonably determine, which shall, to the extent permitted by law, waive all claims and actions against the Employers and such other related parties and entities as the Company reasonably chooses to include in the release except for claims and actions for benefits provided under (or contemplated by) the terms of this Plan (which Release is not revoked by the Covered Executive).

(u) "Severance Multiple" means: (1) a multiple of two (2) for the Chief Executive Officer and (2) a multiple of one (1) for a Tier I Executive.

(v) "Target Bonus" means a Covered Executive's target bonus opportunity (expressed as a percentage of base salary) in effect immediately prior to the date on which the Covered Executive is terminated.

(w) "Tier I Executive" means an Employee who is an Elected Officer of the Company and either: (1) reports directly to the Chief Executive Officer of the Company or (2) is a President of a reportable segment of the Company (regardless of to whom they directly report).

Section 2. Eligibility for Benefits. A Covered Executive shall receive benefits under this Plan if all of the following are satisfied:

(a) an Executive Severance Event has occurred with respect to the Covered Executive, as determined in the sole discretion of the Committee;

(b) the Covered Executive has not waived coverage under the Plan;

(c) the Covered Executive is not a party to, or covered by, another plan, agreement or arrangement providing severance or similar benefits on account of such termination of employment, including without limitation, the Company's Amended and Restated Change in Control Severance Plan (or any successor plan thereto);

(d) none of the conditions set forth in Section 3 below are applicable; and

(e) the Covered Executive executes a Release in the manner prescribed by the Company within 21 days, or such longer period as designated by the Company, following the Covered Executive's date of termination and agrees at such time to be subject to the restrictive covenants set forth on Exhibit A.

Section 3. Exceptions to Coverage. Notwithstanding Section 2 above, a Covered Executive shall not be eligible to receive benefits under this Plan if:

(a) the Covered Executive's termination is due to death or Disability;

(b) the Covered Executive's termination occurs prior to an Executive Severance Event or at his/her or own initiative (including retirement, resignation or failure to return from a leave of absence), other than for a retirement by a Covered Executive that occurs concurrently with an Executive Severance Event; or

(c) the Covered Executive's employment is transferred or the Covered Executive is offered a position in connection with a sale or other disposition of assets, or a portion of the business, of the Company or an affiliate.

Section 4. Severance Benefits. A Covered Executive who satisfies all of the conditions of Section 2 above shall be entitled to the following:

(a) Severance Pay. Each such Covered Executive shall be entitled to receive severance pay from his or her Employer in a single lump sum cash amount equal to the product of the Covered Executive's Severance Multiple, multiplied by the Covered Executive's Annual Compensation.

(b) Pro-Rata Bonus for Year of Termination. The Covered Executive shall be entitled to receive a pro-rata portion (based on the portion of the Fiscal Year for which the Covered Executive was employed) of the Bonus that the Covered Executive otherwise would have earned with respect to the Fiscal Year during which the Covered Executive terminated employment, based on actual performance for the full Fiscal Year; provided, that any individual performance factors applicable to such Bonus shall be deemed to have been achieved at target level performance and; provided, further, that no pro-rata bonus amount shall be payable to the Covered Executive if the Executive Severance Event occurs prior to the end of the second quarter of such Fiscal Year.

(c) Health Benefit Continuation. For a period of eighteen (18) months following the Covered Executive's termination of employment (the "Executive Welfare Continuation Period"), the Covered Executive and such Covered Executive's covered dependents (as eligible under the applicable program) shall receive medical, prescription drug, dental, and vision insurance coverages as available to similarly situated active employees of the Company, for which the Company will (x) reimburse or pay directly on behalf of the Covered Executive during the first 18 months of the Executive Welfare Continuation Period or, if shorter, the period of actual COBRA continuation coverage received by the Covered Executive during the Executive Welfare Continuation Period, for the total amount of the monthly COBRA medical, prescription drug, dental, and vision premiums payable by the Covered Executive for such continued benefits in excess of the amount a similarly situated active employee of the Company would contribute toward these coverages (on a monthly premium basis) and (y) provide such coverage for any remaining portion of the Executive Welfare Continuation Period (or, if it is not possible, or is cost-prohibitive for the Company to provide such coverage for such remaining portion, the Company will pay the Covered Executive a cash lump sum payment equal to the premiums the Company would have paid if the Covered Executive had remained an active employee), provided, however, that if, during the Executive Welfare Continuation Period, the Covered Executive becomes employed by a new employer, continuing medical, prescription drug, dental, and vision coverage from the Company will become secondary to any coverage afforded by the new employer in which the Covered Executive becomes enrolled.

(d) Outplacement. Such Covered Executive shall receive reasonable outplacement services for up to one year following termination of employment to be provided by a provider selected by the Company, the cost of which shall be borne by the Company.

(e) Accrued Benefits. Such Covered Executive shall be entitled to receive any unpaid Base Salary through the date of such Covered Executive's termination and any Bonus unpaid as of the date of such Covered Executive's termination for any previously completed Fiscal Year calculated based on actual performance for such Fiscal Year. In addition, such Covered Executive shall be entitled to reimbursement of any unreimbursed expenses properly incurred by such Covered Executive in accordance with Company policies prior to the date of such Covered Executive's termination. Such Covered Executive shall also be able to receive and enjoy such other post-termination benefits, if any, to which such Covered Executive may be entitled pursuant to the terms and conditions of the Company's benefit plans (including, without limitation, the Company's regular and supplemental pension plans, savings plans, deferred compensation plans, annual and long-term incentive plans, health, disability and life insurance benefit plans, executive financial planning services benefits, and indemnification and directors and officers insurance plans, policies or programs), other than as provided in Section 13(a) of this Plan.

Section 5. Form and Time of Payment. The cash severance pay benefits payable to a Covered Executive under Section 4(a) above shall be paid to such Covered Executive in a single lump sum within 75 days after the Covered Executive's date of termination, provided, however, that if the time period during which the Covered Executive is permitted to sign the Release straddles two calendar years, then the payment shall be made in the second of such calendar years. Any pro-rata Bonus payment made pursuant to Section 4(b) above shall be paid at the same time when Bonuses are paid to similarly situated active Employees. Accrued benefits payable pursuant to Section 4(e) shall be paid at the same time when such amounts are ordinarily paid in accordance with Company practice. All amounts payable hereunder are subject to the Covered Executive's continued compliance with the terms of the Plan (including, without limitation, the Covered Executive's timely execution and non-revocation of the Release), and shall be subject to the tax withholdings and other limitations set forth under Section 6 and any potential limitations of payments set forth in Section 7.

Section 6. Tax Withholding and Section 409A. Each Employer shall withhold from any amount payable to a Covered Executive pursuant to this Plan, and shall remit to the appropriate governmental authority, any income, employment or other tax the Employer is required by applicable law to so withhold from and remit on behalf of such Covered Executive. Notwithstanding any other provision of this Plan or certain compensation and benefit plans of the Employer, any payments or benefits due under this Plan or such Employer compensation and benefit plans upon or in connection with a termination of a Covered Executive's employment shall be paid, and this Plan shall be interpreted, in a manner that shall ensure that any such payments or benefits shall not be subject to any tax or interest under Section 409A of the Code (including, for the avoidance of doubt, by requiring that the payment of any severance due under

Section 4 of this Plan to a Covered Executive who is a "specified employee" within the meaning of the Section 409A of the Code be deferred until the date that is six months following such termination of the Covered Executive's employment, to the extent such delay is required to comply with Section 409A of the Code). Each payment made under this Plan shall be designated as a "separate payment" within the meaning of Section 409A of the Code. To the extent any reimbursements or in-kind benefits due to a Covered Executive under this Plan constitute "deferred compensation" under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to such Covered Executive in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv). Notwithstanding the foregoing, neither the Company nor any of its employees or representatives shall have any liability to any Covered Executive to the extent that any payment or benefit hereunder is determined to be subject to any tax or interest under Section 409A of the Code.

Section 7. Limitation of Certain Payments.

(a) In the event the Company determines that part or all of the consideration, compensation or benefits to be paid to a Covered Executive under this Plan constitute "parachute payments" under Section 280G(b)(2) of the Code, as amended, then, if the aggregate present value of such parachute payments, singularly or together with the aggregate present value of any consideration, compensation or benefits to be paid to Covered Executive under any other plan, arrangement or agreement which constitute "parachute payments" (collectively, the "Parachute Amount") exceeds 2.99 times the Covered Executive's "base amount," as defined in Section 280G(b)(3) of the Code (the "Employee Base Amount"), the amounts constituting "parachute payments" which would otherwise be payable to or for the benefit of Covered Executive shall be reduced to the extent necessary so that the Parachute Amount is equal to 2.99 times the Employee Base Amount (the "Reduced Amount"); provided that such amounts shall not be so reduced if the Company determines that without such reduction the Covered Executive would be entitled to receive and retain, on a net after-tax basis (including, without limitation, any excise taxes payable under Section 4999 of the Code), an amount which is greater than the amount, on a net after tax basis, that the Covered Executive would be entitled to retain upon his/her receipt of the Reduced Amount.

(b) If the determination made pursuant to clause (a) of this Section 7 results in a reduction of the payments that would otherwise be paid to the Covered Executive except for the application of clause (a) of this Section 7, the cash severance pay benefits payable under Section 7(a) shall be reduced. Within ten days following Employer's notice to the Covered Executive of its determination of the reduction in payments, the Company shall pay to or distribute to or for the benefit of Covered Executive such amounts as are then due to Covered Executive under this Plan and shall promptly pay to or distribute to or for the benefit of Covered Executive in the future such amounts as become due to Covered Executive pursuant to this Plan.

(c) As a result of potential uncertainty in the application of Section 280G of the Code at the time of a determination hereunder, it is possible that payments will be made by the Employer which should not have been made under clause (a) of this Section 7 ("Overpayment") or that additional payments which are not made by the Employer pursuant to clause (a) of this Section 7 should have been made ("Underpayment"). In the event that there is a final determination by the Internal Revenue Service, or a final determination by a court of competent jurisdiction, that an Overpayment has been made, any such Overpayment shall be repaid by the Covered Executive to the Employer together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code. In the event that there is a final determination by the Internal Revenue Service, a final determination by a court of competent jurisdiction or a change in the provisions of the Code or regulations pursuant to which an Underpayment arises under this Plan, any such Underpayment shall be promptly paid by the Employer to or for the benefit of Covered Executive, together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code.

Section 8. Plan Administration. This Plan shall be administered by the Committee. The Committee shall have discretionary and final authority to interpret and implement the provisions of this Plan and to determine eligibility for benefits under the Plan. The Committee shall perform all of the duties and exercise all of the powers and discretion that the Committee deems necessary or appropriate for the proper administration of this Plan. The Committee may adopt such rules and regulations for the administration of this Plan as are consistent with the terms hereof, and shall keep adequate records of its proceedings and acts. The Committee may employ such agents, accountants and legal counsel (who may be agents, accountants and legal counsel for an Employer) as may be appropriate for the administration of the Plan. All reasonable administration expenses incurred by the Committee in connection with the administration of the Plan shall be paid by the Employer.

Section 9. Applicable Law. This Plan shall be governed and construed in accordance with applicable federal law; provided, however, that wherever such law does not otherwise preempt state law, the laws of the State of New York shall govern.

Section 10. Plan Amendment and Termination. Each of the Board and the Committee shall have the right and power at any time, and from time to time, subject to thirty (30) days advance written notice to all adversely affected Covered Executives (which written notice may be satisfied by any public filing of such plan amendment or termination), to amend or terminate this Plan, in whole or in part; provided, that no such amendment or termination shall adversely affect in any material respect the rights of any Covered Executive to whom severance benefits under this Plan became payable prior to the date of such amendment or termination.

Section 11. Nature of Plan and Rights. This Plan is an unfunded employee welfare benefit plan and no provision of this Plan shall be deemed or construed to create a trust fund of any kind or to grant a property interest of any kind to any Covered Executive or former Covered Executive. Any payment which becomes due under this Plan to a Covered Executive shall be made by his or her Employer out of its general assets, and the right of any Covered Executive to receive a payment hereunder from his or her Employer shall be no greater than the right of any unsecured general creditor of such Employer. It is the Company's intention that this Plan be unfunded for Federal income tax purposes and for purposes of Title I of ERISA.

Section 12. Claims Procedure.

(a) Any person claiming a benefit, requesting an interpretation or ruling under this Plan, or requesting information under this Plan shall present the request in writing to the Committee, which shall respond in writing within 90 days. The Committee may, however, extend the reply period for an additional ninety 90 days for special circumstances. If the claim or request is denied, the written notice of denial shall state (1) the reason for denial, with specific reference to the plan provisions on which the denial is based, (2) a description of any additional material or information required and an explanation of why it is necessary, and (3) an explanation of the claims review procedure.

(b) Within 60 days after the receipt by a claimant of the written decision described above or the expiration of the claims review period described above including any extension, the claimant may request review by giving written notice to the Committee. The claim or request shall be reviewed by the Committee, which may, but shall not be required to, grant the claimant a hearing. On review, the claimant may have representation, examine pertinent documents, and submit issues and comments in writing. If the claimant does not request a review within such sixty-day period, he or she shall be barred from challenging the original determination.

(c) The decision on review shall normally be made within 60 days after the Committee's receipt of a request for review. If an extension of time is required for a hearing or other special circumstances, the claimant shall be notified and the time limit shall be 120 days. The decision shall be in writing and shall state the reason and the relevant plan provisions.

(d) To the extent permitted by law, decisions reached under the claims procedures set forth in this Section 12 shall be final and binding on all parties. No legal action for benefits under the Plan shall be brought unless and until the claimant has exhausted his/her remedies under this Section 12. In any such legal action, the claimant may only present evidence and theories which the claimant presented during the claims procedure. Any claims which the claimant does not in good faith pursue through the review stage of the procedure shall be treated as having been irrevocably waived. Judicial review of a claimant's denied claim shall be limited to a determination of whether the denial was an abuse of discretion based on the evidence and theories the claimant presented during the claims procedure.

(e) Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the claim for benefits by the Committee. The one-year limitation on suits for benefits will apply in any forum where a claimant initiates such suit or legal action.

Section 13. Entire Plan; Offset; No Interference.

(a) Except as expressly provided herein, this Plan supersedes the provisions of all other prior plans and policies expressly concerning the payment of severance benefits upon a termination of employment; provided, that in no event shall payments or benefits provided pursuant to any other severance agreement, policy or plan entitle Covered Executive to a duplication of payments and benefits pursuant to this Plan.

(b) Except as expressly provided herein, this Plan shall not interfere in any way with the right of the Company to reduce Covered Executive's compensation or other benefits or terminate Covered Executive's employment, with or without Cause.

Section 14. Spendthrift Provision. No right or interest of a Covered Executive under this Plan may be assigned, transferred or alienated, in whole or in part, either directly or by operation of law, and no such right or interest shall be liable for or subject to any debt, obligation or liability of such Covered Executive.

Section 15. Notice. Notice of termination for Cause shall be given in accordance with this Section 15, and shall indicate the specific termination provision under the Plan relied upon, the relevant facts and circumstances and the effective date of termination. For the purpose of this Plan, any notice and all other communication provided for in this Plan shall be in writing and shall be deemed to have been duly given when received at the respective addresses set forth below, or to such other address as the Company or the Covered Executive may have furnished to the other in writing in accordance herewith.

If to the Company:

L3 Technologies, Inc.
600 Third Avenue
New York, New York 10016
Attn: Chief Legal Officer

If to the Covered Executive:

To the most recent address of the Covered Executive set forth in the personnel records of the Company, or prior to termination, by hand delivery at the Covered Executive's principal office location or by e-mail to the Covered Executive's Company-provided e-mail address.

Section 16. No Mitigation. In no event shall a Covered Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts or benefits to be provided to the Covered Executive under any of the provisions of this Plan, and such amounts or benefits shall not be reduced based on whether or not the Participant obtains other employment except as expressly provided for hereunder.

Section 17. Effectiveness. This Plan shall be effective as of the Effective Date and shall remain in effect until terminated pursuant to Section 10 of this Plan.

Exhibit A

RESTRICTIVE COVENANTS

I. As a result of the position which the Covered Executive occupies, and the confidence placed in the Covered Executive, the Covered Executive has been and is entrusted with and has access to Confidential Information (defined below), in order for the Covered Executive to carry out the Covered Executive's responsibilities. The Covered Executive acknowledges that any Confidential Information of the Company derives independent value from not being readily known to or ascertainable by proper means by others who may obtain value from its disclosure or use. The Covered Executive agrees that Confidential Information is the sole property of the Company and the Covered Executive agrees that the Covered Executive will not use or disclose Confidential Information or share, communicate or provide access to any Confidential Information to any other person. Except as otherwise may be permitted herein, the Covered Executive further agrees that any such use or disclosure will constitute a misappropriation of Confidential Information of the Company and a violation of this Plan. For purposes of this paragraph I, "Confidential Information" means any non-public, confidential or personal information or materials in any media (including oral, written, electronic or digital) relating to the Company and its directors, officers, affiliates, or employees, or relating to the Company or its affiliates' past, current or future businesses, activities, finances, personnel, transactions, assets, legal matters and matters related to the Company's ethics program (including without limitation complaints, investigations, reports and responses). "Confidential Information" includes, but is not limited to, any trade secrets, formulas, devices, inventions, methods, techniques or processes, compilations of information, records and specifications that are owned or licensed by the Company and used in the operation of the Company business and any other information of the Company relating to its services and products (offered or to be offered), research, development, marketing, pricing, clients and prospective clients, business methods, strategies, business or marketing plans, financial data, profit plans, know-how, minutes of meetings, notes, instructions, correspondence, personnel information and capabilities, policies or prospects. "Confidential Information" does not include any information that is or becomes generally known to the public or industry, other than due to the fault of the Covered Executive. Confidential Information also includes any legally privileged information of the Company, including without limitation attorney work product, attorney-client communications and legal strategies.

II. Notwithstanding anything to the contrary herein or in any compliance policy of the Company, nothing shall prohibit the Covered Executive from communicating, cooperating or filing a complaint with any U.S. federal, state or local enforcement branch, agency or entity (collectively, a "Governmental Entity") with respect to possible violations of any U.S. federal, state or local law or regulation, or otherwise making disclosure relating thereto to any such Governmental Entity, that are protected under the whistleblower provisions of any such law or regulation provided that in each case (A) such communications and disclosures are consistent with applicable law and made in good faith and (B) the information subject to such disclosure was not obtained by the Covered Executive through a communication that was subject to the attorney-client privilege, unless such disclosure of that information would otherwise be permitted by an attorney pursuant to 17 CFR 205.3(d)(2) or other applicable state attorney conduct rules. Moreover, the Covered Executive does not need the prior authorization of (or to give prior notice to) the Company regarding any such communication or disclosure. The Covered Executive understands and acknowledges that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (A) in confidence to a federal, state, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (B) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. The Covered Executive understands and acknowledges further that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual files any document containing the trade secret under seal; and does not disclose the trade secret, except pursuant to court order. Notwithstanding the foregoing, the Company intends to fully preserve the attorney-client privilege, work product protection and any other privilege or similar protection belonging to the Company, and nothing contained in this Plan shall be construed as a waiver by the Company of its attorney-client privilege or work product protection or any other privilege or protection belonging to the Company. The Covered Executive understands and acknowledges the Covered Executive's continuing obligation to maintain such privilege, subject to applicable law.

III. In consideration of the Company's obligations under the Plan to which this Exhibit A is attached, each Covered Executive agrees that for a period of twelve (12) months after termination of employment with his or her Employer, without the prior written consent of the Committee, in the case of the Chief Executive Officer, or the Chief Executive Officer, in the case of any other Covered Executive, (A) he or she will not, directly or indirectly, and in any capacity, own, manage, operate, finance, join, control or participate in the ownership, management, operation, financing or control of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, any business or enterprise which (i) involves the use of Confidential Information pertaining to the Company, (ii) is a competitor of Company (as determined based on any business operations of the Company which exist or are planned as of the Effective Date of the Plan), or (iii) is owned or operated by a competitor of the Company, directly or through an affiliated or subsidiary organization, (B) directly or indirectly, either as principal, manager, agent, consultant, officer, stockholder, partner, investor, lender or employee or in any other capacity, on the Covered Executive's own behalf or on behalf of any person, firm or company, solicit or offer employment to any person who is or has been employed by the Company at any time during the one-year period immediately preceding such solicitation, (C) (x) solicit orders for any products or services offered by the Company during the two (2) year period prior to the Covered Executive's termination of employment from any customers or clients of the Company with whom the Covered Executive or employees reporting to the Covered Executive dealt or obtained Confidential Information about during the two (2) year period prior to the Covered Executive's termination of employment or (y) induce or attempt to induce any customer or client of the Company with whom the Covered Executive or employees reporting to the Covered Executive dealt or obtained Confidential Information about during the two (2) year period prior to the Covered Executive's termination of employment to terminate or otherwise adversely affect such customer's or client's relationship with the Company. The Covered Executive agrees that the Covered Executive will not, directly or indirectly, communicate with any person or entity, including, without limitation, any of the Company's creditors, customers, suppliers, officers, licensees, business partners or employees, or any member of the press or other media, about any aspect of the business, prospects, operations, or financial condition of the Company, nor publish or make any statements critical of the Company, in each case, which may in any way, directly or indirectly, adversely affect or otherwise interfere with or malign the business or reputation of the Company. This paragraph III is not intended to prohibit the ownership by the Covered Executive of not more than five percent (5%) of any class of securities of any corporation which is engaged in any of the foregoing businesses having a class of securities registered pursuant to the Securities and Exchange Act of 1934, provided that neither the Covered Executive nor any group of persons including the Covered Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes part in its business, other than exercising rights as a shareholder, or seeks to do any of the foregoing.

IV. Subject to paragraph II above, the Covered Executive will not, directly or indirectly, communicate with any person or entity, including, without limitation, any of the Company's or its affiliates' creditors, customers, suppliers, officers, licensees, business partners or employees, or any member of the press or other media, about any aspect of the business, prospects, operations, or financial condition of the Company or its affiliates, nor publish or make any statements critical of the Company or its affiliates, in each case, which may in any way, directly or indirectly, adversely affect or otherwise interfere with or malign the business or reputation of the Company or its affiliates.

V. The Covered Executive agrees to cooperate with the Company in assisting with the transition of business matters of the Company, including ongoing or completed transactions, which the Covered Executive was involved in or had obtained knowledge of as an employee of the Company. The Covered Executive further agrees to cooperate with any internal Company investigations or investigations by any law enforcement or Governmental Entity and in any litigation arising from or related to the Covered Executive's former employment at the Company. Such cooperation shall include attending meetings as reasonably needed with Company or government officials, and if involved in litigation or other proceedings, trial and deposition or other appearances, and providing truthful testimony. The Company shall reimburse the Covered Executive for any reasonable out-of-pocket expenses incurred in connection with such cooperation, subject to the terms of the Company's standard expense reimbursement policies.

VI. In the event the Company determines that a Covered Executive has breached the covenants contained in this Exhibit A, the Company may, in addition to pursuing any other remedies it may have in law or in equity, cease making any payments otherwise required by this Plan and/or obtain an injunction against the Covered Executive from any court having jurisdiction over the matter restraining any further violation of this Exhibit A by the Covered Executive. Further, if in the opinion of any court of competent jurisdiction any of the restraints identified herein is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended.

L3 TECHNOLOGIES, INC.
AMENDED AND RESTATED
CHANGE IN CONTROL SEVERANCE PLAN

THIS L3 TECHNOLOGIES, INC. AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE PLAN, originally adopted on August 15, 2006 (the "Effective Date") by L-3 Communications Holdings, Inc. (which subsequently merged with and into the Company (as defined below) (formerly known as L-3 Communications Corporation)), as amended and restated through July 25, 2018, has been established to provide for the payment of severance benefits to Employees (as defined below).

Section 1. Definitions. Unless the context clearly indicates otherwise, when used in this Plan:

(a) "Actual Bonus" means any Bonus actually paid or payable to an Eligible Employee (excluding any reduction in amount resulting from an adverse change to the assumptions (including the Employee's Target Bonus) or calculation methodology for determining the amount of such Bonus made on or after a Change in Control).

(b) "Affiliate" means, with respect to any entity, any other corporation, organization, association, partnership, sole proprietorship or other type of entity, whether incorporated or unincorporated, directly or indirectly controlling or controlled by or under direct or indirect common control with such entity.

(c) "Annual Compensation" means the sum of (x) the greater of the Eligible Employee's Base Salary in effect (A) immediately prior to the date of the Change in Control or (B) immediately prior to the date of termination of the Eligible Employee (or, if the termination is for Good Reason, immediately prior to the event set forth in the notice of termination given in accordance with Section 15 of this Plan), and (y) the Eligible Employee's Average Bonus.

(d) "Anticipatory Termination" means a termination of an Employee made in connection with or in anticipation of a Change in Control at the request of, or upon the initiative of, the acquiror in the Change in Control transaction or otherwise in connection with or anticipation of the Change in Control.

(e) "Average Bonus" means the average of all Bonuses paid or payable to an Eligible Employee in respect of the three Fiscal Years occurring prior to the Fiscal Year in which the employment of the Eligible Employee is terminated (or, if the Eligible Employee was not an Employee during each of such Fiscal Years, such lesser number of Fiscal Years during which the Eligible Employee was an Employee); provided, that for purposes of this calculation, any Bonus awarded to the Eligible Employee for a Fiscal Year in which the Employee was employed for less than the full Fiscal Year shall be annualized; provided, further, that if the Bonus for the last of the three Fiscal Years utilized in this calculation (i) (x) has not been paid because the Employee was terminated prior to the scheduled date for payment of such Bonus and (y) is not determinable by way of a formula or calculation applied on a basis consistent with past practice or (ii) has been paid based on an adverse change to the assumptions (including the Employee's Target Bonus) or calculation methodology for determining the amount of such Bonus made on or after a Change in Control, then the Bonus for such year shall be disregarded and the calculation shall be made on the basis of the average of the other Fiscal Years; provided, further, that if the Employee was not an Employee (1) prior to the last of the three Fiscal Years utilized in this calculation and the Bonus for such last Fiscal Year is disregarded by operation of the immediately preceding proviso or (2) prior to the Fiscal Year in which the employment of the Eligible Employee is terminated, then the term "Average Bonus" shall mean the Eligible Employee's Target Bonus. Notwithstanding the foregoing, if such Eligible Employee received a Qualified Promotion at any time since the commencement of the first Fiscal Year taken into account for purposes of the calculation of Average Bonus provided for under the immediately preceding sentence, then for purposes of this Plan, the term "Average Bonus" shall mean the greater of (A) the calculation of Average Bonus provided for under the immediately preceding sentence and (B) the Eligible Employee's Target Bonus.

(f) "Base Salary" means an Employee's annual rate of base salary in effect on the date in question, determined on a "gross wages" basis (i.e. prior to reduction for any employee-elected salary reduction contributions made to an Employer-sponsored non-qualified deferred compensation plan or an Employer-sponsored plan pursuant to Section 401(k) or 125 of the Code), and excluding bonuses, overtime, allowances, commissions, deferred compensation payments and any other extraordinary remuneration.

(g) "Board" means the board of directors of the Company.

(h) "Bonus Fraction" means, with respect to any Eligible Employee, a fraction, the numerator of which shall equal the number of days the Eligible Employee was employed by the Eligible Employee's Employer in the Fiscal Year in which the Eligible Employer's termination occurs and the denominator of which shall equal 365.

(i) "Bonus" means the amount payable to an Employee under the Employer's applicable annual cash incentive bonus plan with respect to a Fiscal Year.

(j) "Cause" means an Employee's:

(1) intentional failure to perform reasonably assigned duties;

(2) dishonesty or willful misconduct in the performance of duties;

(3) engaging in a transaction in connection with the performance of duties to the Company or its Affiliates which transaction is adverse to the interests of the Company and is engaged in for personal profit or;

(4) willful violation of any law, rule or regulation in connection with the performance of duties (other than traffic violations or similar offenses).

For purposes of this definition, an act, or failure to act, on Employee's part shall be deemed "willful" if done, or omitted to be done, by Employee in bad faith and without reasonable belief that Employee's action or omission was in the best interest of the Company.

(k) "Change in Control" means:

(1) the acquisition by any person or group (including a group within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), other than the Company or any of its subsidiaries, of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of a majority of the combined voting power of the Company's then outstanding voting securities, other than by any employee benefit plan maintained by the Company;

(2) the sale of all or substantially all the assets of the Company and its subsidiaries taken as a whole; or

(3) the election, including the filling of vacancies, during any period of 24 months or less, of 50% or more of the members of the Board, without the approval of Continuing Directors, as constituted at the beginning of such period.

For purposes of this definition, "Continuing Directors" shall mean, with respect to any date, any director of the Company who either (i) is a member of the Board on such date, or (ii) is subsequently nominated for election to the Board by a majority of the Board which is comprised of directors who were, at the time of such nomination, Continuing Directors.

(l) "COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

(m) "Code" means the Internal Revenue Code of 1986, as amended.

(n) "Committee" means the committee designated pursuant to Section 6 to administer this Plan.

(o) "Company" means L3 Technologies, Inc., a Delaware corporation and, after a Change in Control, any successor or successors thereto.

(p) "Director" means (a) any Director of the Company and (b) any other Employee who participates in the Executive Benefits Plan of the Company at the benefit level provided to Directors of the Company generally. For the avoidance of doubt, the phrase "Director of the Company" as used in clause (a) of this definition refers to an Employee serving with a title of Director, and not to a member of the Board.

(q) "Disability" means an Employee, as a result of incapacity due to physical or mental illness, becomes eligible for benefits under the long-term disability plan or policy of the Company or a subsidiary in which the Employee is eligible to participate.

(r) "Elected Officer" means a person who is elected or appointed as an officer of the Company pursuant to any resolution adopted by Board on or after the date of the most recent annual election of officers and prior to the date of the Change in Control (which election or appointment is not revoked prior to such date).

(s) "Eligible Employee" means an Employee whose employment with Employee's Employer (i) is terminated by the Employer for any reason other than Cause, Disability or death (A) as an Anticipatory Termination, but only (x) if an anticipated Change in Control actually occurs during the period in which this Plan is effective and (y) to the extent such Change in Control also constitutes a change in ownership or effective control, or in the ownership of a substantial portion of the assets, within the meaning of Section 409A(a)(2)(A)(v) of the Code or (B) during the two-year period beginning on the effective date of a Change in Control, or (ii) terminates during the two-year period beginning on the effective date of a Change in Control on account of such Employee's resignation for Good Reason within six months from the date the Employee first becomes actually aware of the existence of Good Reason.

(t) "Employee" means (1) any Elected Officer of the Company and (2) any other employee of the Company or any of its wholly-owned subsidiaries, whose payroll expenses are primarily allocated and recorded as a corporate expense of L3 Technologies, Inc. or any successor entity (and not as an expense of a group, division or subsidiary thereof) for financial reporting purposes, as applied immediately prior to the date of a Change in Control.

(u) "Employer" means, with respect to any Employee, the legal entity that employed such Employee prior to any termination of employment contemplated hereunder.

(v) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(w) "Executive" means a person qualifying as any of following immediately prior to the date of a Change in Control: (i) the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer and the General Counsel of the Company, (ii) any Executive Vice President, Senior Vice President or Group President of the Company and (iii) any Vice President or Director of the Company (as such positions are defined in this Section 1). For the avoidance of doubt, the term "Executive" shall not include any Employee who holds a title of Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, Executive Vice President, Senior Vice President, Vice President or Director solely with respect to a Company group, division or subsidiary and not with respect to the Company generally.

(x) "Fiscal Year" means any given fiscal year of the Company.

(y) "Good Reason" means any of the following actions on or after a Change in Control, without Employee's express prior written approval, other than due to Employee's Disability or death:

(1) (A) any reduction in Base Salary or annual or long-term incentive opportunity (including Target Bonus, if applicable) or (B) any adverse change to the calculation methodology for determining Bonuses or long-term incentives which is reasonably likely to have an adverse impact on the amounts the Eligible Employee has the potential to earn under such programs (which for the avoidance of doubt shall not be deemed to have occurred if an acquiror fails to continue or provide any equity-based incentive plan);

(2) any failure by acquiror to continue to provide employee benefits that are substantially similar in the aggregate to those afforded to the Employee immediately prior to the Change in Control; for this purpose employee benefits shall mean pension and retirement, fringe and welfare benefits;

(3) any material adverse change in Employee's duties or responsibilities;

(4) any relocation of Employee's principal place of business of 50 miles or more, provided that such relocation also increases Employee's commute by at least 25 miles; or

(5) any failure to pay Employee's Base Salary and other amounts earned by Employee within ten (10) days after the date such compensation is due;

(6) the failure of any successor or assignee (whether direct or indirect, by purchase, merger, consolidation, or otherwise) to all or substantially all of the business and/or assets of the Company in connection with any Change in Control, by agreement in writing in form and substance reasonably satisfactory to Employee, expressly, absolutely and unconditionally to assume and agree to perform all obligations under this Plan.

(z) "Plan" means the L3 TECHNOLOGIES, INC. AMENDED AND RESTATED CHANGE IN CONTROL SEVERANCE PLAN, as in effect from time to time.

(aa) "Plan Year" means the calendar year.

(bb) "Qualified Promotion" means, with respect to any Eligible Employee, a promotion with respect to such Eligible Employee's title that is accompanied by a related increase in such Employee's Base Salary or target Bonus as a percentage of Base Salary. For the avoidance of doubt, the initial hiring of an Eligible Employee shall not constitute a Qualified Promotion.

(cc) "Release" means a release to be signed by an Eligible Employee in such form as the Company shall reasonably determine, which shall, to the extent permitted by law, waive all claims and actions against the Employers and such other related parties and entities as the Company reasonably chooses to include in the release except for claims and actions for benefits provided under (or contemplated by) the terms of this Plan (which Release is not revoked by the Eligible Employee).

(dd) "Severance Multiple" means, with respect to any Eligible Employee, the highest of the following multiples applicable to such person:

(1) the multiple of three (3), for (i) the Chief Executive Officer of the Company or (ii) the Chief Operating Officer, the Chief Financial Officer, the General Counsel or any Executive Vice President of the Company, provided, that this clause (ii) shall apply only if the Eligible Employee held one or more of such positions prior to March 14, 2017;

(2) the multiple of two and one-half (2.5), for (i) each Senior Vice President, Group President or Segment President of the Company or (ii) the Chief Operating Officer, the Chief Financial Officer, the General Counsel or any Executive Vice President of the Company, provided, that this clause (ii) shall apply only if the Eligible Employee did not hold any of such positions prior to March 14, 2017;

(3) the multiple of two (2), for each Vice President of the Company who is also an Elected Officer;

(4) the multiple of one and one-half (1.5), for each Vice President of the Company who is not also an Elected Officer; and

(5) the multiple of one (1), for each Director of the Company.

(ee) "Target Bonus" means the greater of (1) an Employee's target Bonus in effect immediately prior to the date of the Change in Control or (2) an Employee's target Bonus in effect immediately prior to the date on which the Eligible Employee is terminated (or, if the termination is for Good Reason, immediately prior to the event set forth in the notice of termination given in accordance with Section 15).

(ff) "Vice President" means (a) any Vice President of the Company and (b) any other Employee who participates in the Executive Benefits Plan of the Company at the benefit level provided to Vice Presidents of the Company generally.

Section 2. Severance Benefits. Each Eligible Employee who executes a Release in the manner prescribed by the Company within 45 days following such Eligible Employee's date of termination and additionally, for each Eligible Employee who is also an Elected Officer, who agrees at such time to be subject to the restrictive covenants set forth on Exhibit A shall be entitled to the following:

(a) Severance Pay.

(1) Each such Eligible Employee who is an Executive shall be entitled to receive severance pay from his or her Employer in a lump sum amount equal to the sum of:

(i) the Eligible Employee's Severance Multiple, multiplied by the Eligible Employee's Annual Compensation; and

(ii) the Average Bonus (or, if determinable on the date of termination (i.e., by way of a formula or calculation applied on a basis consistent with past practice), the Actual Bonus for the year of termination), multiplied by the Bonus Fraction.

(2) Each such Eligible Employee who is not an Executive shall be entitled to receive severance pay from his or her Employer in a lump sum amount equal to the sum of:

(i) the Average Bonus (or, if determinable on the date of termination (i.e., by way of a formula or calculation applied on a basis consistent with past practice), the Actual Bonus for the year of termination), multiplied by the Bonus Fraction; plus

(ii) four (4) weeks of the Eligible Employee's Annual Compensation; plus

(iii) two (2) or three (3) weeks (as determined by the Chief Executive Officer of the Company on or prior to the date of the Change in Control) of the Eligible Employee's Annual Compensation for each completed year of service by the Eligible Employee with the Company, its Affiliates and any of their respective predecessor entities; provided, however, that the sum of the amounts determined under clauses (ii) and (iii) above shall be limited to the amount of the Eligible Employee's Annual Compensation (i.e., 52 weeks of the Eligible Employee's Annual Compensation).

(b) Medical, Dental and Life Insurance Benefit Continuation.

(1) For each Eligible Employee who is an Executive, for a period of years (or fractions thereof) equal to the Severance Multiple following the Eligible

Employee's termination of employment (the "Executive Welfare Continuation Period"), the Eligible Employee and such Eligible Employee's spouse and dependents (each as defined under the applicable program) shall receive the following benefits: (x) medical and dental insurance coverages at the same benefit levels as provided to the Eligible Employee immediately prior to the Change in Control, for which the Company will (A) reimburse the Eligible Employee during the first 18 months of the Executive Welfare Continuation Period or, if shorter, the period of actual COBRA continuation coverage received by the Eligible Employee during the Executive Welfare Continuation Period, for the total amount of the monthly COBRA medical and dental insurance premiums payable by the Eligible Employee for such continued benefits in excess of the cost the Eligible Employee paid for such coverage (on a monthly premium basis) immediately prior to such termination of employment and (B) provide such coverage for any remaining portion of the Executive Welfare Continuation Period at the same cost to the Eligible Employee as is generally provided to similarly situated active employees of the Company (or, if it is not possible, or is cost-prohibitive for the Company to provide such coverage for such remaining portion, the Company will pay the Eligible Employee a cash lump sum payment equal to the premiums the Company would have paid if the Eligible Employee had remained an active employer), provided, however, that if, during the Executive Welfare Continuation Period, the Eligible Employee becomes employed by a new employer, continuing medical and dental coverage from the Company will become secondary to any coverage afforded by the new employer in which the Eligible Employee becomes enrolled); and (y) life insurance coverage at the same benefit level as provided to the Eligible Employee immediately prior to the Change in Control and at the same cost to the Eligible Employee as is generally provided to similarly situated active employees of the Company (or if such coverage is no longer provided by the Company, then at the Employee's cost immediately prior to the Change in Control).

(2) For each Eligible Employee who is not an Executive, for a period not to exceed the number of weeks of Annual Compensation payable to the Eligible Employee pursuant to Section 2(a)(2) above, (the "Employee Welfare Continuation Period"), the Eligible Employee and such Eligible Employee's spouse and dependents (each as defined under the applicable program) shall receive the following benefits: (x) medical and dental insurance coverages at the same benefit levels as provided to the Eligible Employee immediately prior to the Change in Control, for which the Company will reimburse the Eligible Employee during the first 52 weeks of the Employee Welfare Continuation Period or, if shorter, the period of actual COBRA continuation coverage received by the Eligible Employee during the Employee Welfare Continuation Period, for the total amount of the monthly COBRA medical and dental insurance premiums payable by the Eligible Employee for such continued benefits in excess of the cost the Eligible Employee paid for such coverage (on a monthly premium basis) immediately prior to such termination of employment, provided, however, that if, during the Employee Welfare Continuation Period, the Eligible Employee becomes employed by a new employer, continuing

medical and dental coverage from the Company will become secondary to any coverage afforded by the new employer in which the Eligible Employee becomes enrolled); and (y) life insurance coverage at the same benefit level as provided to the Eligible Employee immediately prior to the Change in Control and at the same cost to the Eligible Employee as is generally provided to similarly situated active employees of the Company (or if such coverage is no longer provided by the Company, then at the Employee's cost immediately prior to the Change in Control).

(c) Outplacement. Such Eligible Employee shall receive reasonable outplacement services to be provided by a provider selected by such Eligible Employee, the cost of which shall be borne by the Company.

(d) Accrued Benefits. Such Eligible Employee shall be entitled to receive any unpaid Base Salary through the date of such Eligible Employee's termination, any Bonus earned but unpaid as of the date of such Eligible Employee's termination for any previously completed Fiscal Year (which, if not determinable by way of a formula or calculation applied on a basis consistent with past practice, shall be an amount equal to the Eligible Employee's Average Bonus), and all compensation previously deferred by such Eligible Employee but not yet paid as well as all accrued interest thereon. In addition, such Eligible Employee shall be entitled to prompt reimbursement of any unreimbursed expenses properly incurred by such Eligible Employee in accordance with Company policies prior to the date of such Eligible Employee's termination. Such Eligible Employee shall also be able to receive and enjoy such other benefits, if any, to which such Eligible Employee may be entitled pursuant to the terms and conditions of (1) the employee compensation, incentive, equity, benefit or fringe benefit plans, policies or programs of the Company, other than any Company severance policy and as provided in Section 12(a) of this Plan, and (2) the indemnification and D&O insurance plans, policies or programs of the Company.

Section 3. Form and Time of Payment. The cash severance pay benefits payable to an Eligible Employee under Section 2 above shall be paid to such Eligible Employee in a single lump sum less applicable withholdings under Section 4 of this Plan within 75 days after the Eligible Employee's date of termination, except with respect to any additional bonus amount payable after such time period to the extent required pursuant to Section 2(d) above and except as provided pursuant to Section 5 of this Plan; provided, however, that the Company shall not be required to pay or continue to pay the cash severance pay benefits in the event such Eligible Employee does not sign a Release or such Eligible Employee revokes the Release during the time to revoke, if any.

Section 4. Tax Withholding and Section 409A. Each Employer shall withhold from any amount payable to an Eligible Employee pursuant to this Plan, and shall remit to the appropriate governmental authority, any income, employment or other tax the Employer is required by applicable law to so withhold from and remit on behalf of such Eligible Employee. Notwithstanding any other provision of this Plan or certain compensation and benefit plans of the Employer, any payments or benefits due under this Plan or such Employer compensation and benefit plans upon or in connection with a termination of an Eligible Employee’s employment shall be paid, and this Plan shall be interpreted, in a manner that shall ensure that any such payments or benefits shall not be subject to any tax or interest under Section 409A of the Code (including, for the avoidance of doubt, by requiring that the payment of any severance due under Section 2 of this Plan to an Employee who is a “specified employee” within the meaning of the Section 409A of the Code be deferred until the date that is six months following such termination of the Employee’s employment, to the extent such delay is required to comply with Section 409A of the Code). Each payment made under this Plan shall be designated as a “separate payment” within the meaning of Section 409A of the Code. To the extent any reimbursements or in-kind benefits due to an Employee under this Plan constitute “deferred compensation” under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to such Employee in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv). Notwithstanding the foregoing, neither the Company nor any of its employees or representatives shall have any liability to any Eligible Employee to the extent that any payment or benefit hereunder is determined to be subject to any tax or interest under Section 409A of the Code.

Section 5. Limitation of Certain Payments.

(a) In the event the Company determines, based upon the advice of the independent public accountants for the Company, that part or all of the consideration, compensation or benefits to be paid to an Employee under this Plan constitute “parachute payments” under Section 280G(b)(2) of the Code, as amended, then, if the aggregate present value of such parachute payments, singularly or together with the aggregate present value of any consideration, compensation or benefits to be paid to Employee under any other plan, arrangement or agreement which constitute “parachute payments” (collectively, the “Parachute Amount”) exceeds 2.99 times the Employee’s “base amount,” as defined in Section 280G(b)(3) of the Code (the “Employee Base Amount”), the amounts constituting “parachute payments” which would otherwise be payable to or for the benefit of Employee shall be reduced to the extent necessary so that the Parachute Amount is equal to 2.99 times the Employee Base Amount (the “Reduced Amount”); provided that such amounts shall not be so reduced if the Company determines, based upon the advice of an independent nationally recognized public accounting firm (which may, but need not be the independent public accountants of the Company), that without such reduction Employee would be entitled to receive and retain, on a net after-tax basis (including, without limitation, any excise taxes payable under Section 4999 of the Code), an amount which is greater than the amount, on a net after tax basis, that the Employee would be entitled to retain upon his receipt of the Reduced Amount.

(b) If the determination made pursuant to clause (a) of this Section 5 results in a reduction of the payments that would otherwise be paid to Employee except for the application of clause (a) of this Section 5, the cash severance pay benefits payable under Section 2(a) shall be reduced. Within ten days following Employer’s notice to the Employee of its determination of the reduction in payments, the Company shall pay to or distribute to or for the benefit of Employee such amounts as are then due to Employee under this Plan and shall promptly pay to or distribute to or for the benefit of Employee in the future such amounts as become due to Employee pursuant to this Plan.

(c) As a result of potential uncertainty in the application of Section 280G of the Code at the time of a determination hereunder, it is possible that payments will be made by the Employer which should not have been made under clause (a) of this Section 5 ("Overpayment") or that additional payments which are not made by the Employer pursuant to clause (a) of this Section 5 should have been made ("Underpayment"). In the event that there is a final determination by the Internal Revenue Service, or a final determination by a court of competent jurisdiction, that an Overpayment has been made, any such Overpayment shall be repaid by Employee to the Employer together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code. In the event that there is a final determination by the Internal Revenue Service, a final determination by a court of competent jurisdiction or a change in the provisions of the Code or regulations pursuant to which an Underpayment arises under this Plan, any such Underpayment shall be promptly paid by the Employer to or for the benefit of Employee, together with interest at the applicable Federal rate provided for in Section 7872(f)(2) of the Code.

Section 6. Plan Administration. This Plan shall be administered by the Compensation Committee of the Board or, following a Change in Control, such other successor body as is designated by the acquiror in the Change in Control transaction (the "Committee"). Subject to the provisions of Section 7 of this Plan, the Committee shall have discretionary and final authority to interpret and implement the provisions of this Plan and to determine eligibility for benefits under the Plan. The Committee shall perform all of the duties and exercise all of the powers and discretion that the Committee deems necessary or appropriate for the proper administration of this Plan. The Committee may adopt such rules and regulations for the administration of this Plan as are consistent with the terms hereof, and shall keep adequate records of its proceedings and acts. The Committee may employ such agents, accountants and legal counsel (who may be agents, accountants and legal counsel for an Employer) as may be appropriate for the administration of the Plan. All reasonable administration expenses incurred by the Committee in connection with the administration of the Plan shall be paid by the Employer.

Section 7. Dispute Resolution. Any dispute hereunder or with regard to any document or agreement referred to herein shall be resolved by arbitration before the American Arbitration Association in New York City, New York. The determination of the arbitrator shall be final and binding on the parties hereto and may be entered in any court of competent jurisdiction.

Section 8. Applicable Law. This Plan shall be governed and construed in accordance with applicable federal law; provided, however, that wherever such law does not otherwise preempt state law, the laws of the State of New York shall govern.

Section 9. Legal Fees. All reasonable legal fees and expenses incurred by an Eligible Employee in connection with any non-frivolous claim made pursuant to this Plan shall be borne by the Company.

Section 10. Plan Amendment and Termination. Prior to the occurrence of a Change in Control, each of the Board and the Committee shall have the right and power at any time, and from time to time, subject to ninety (90) days advance written notice to all Employees, to amend or terminate this Plan, in whole or in part; provided, that no such amendment or termination shall be effective if made in connection with or in anticipation of a Change in Control at the request of, or upon the initiative of, the acquiror in the Change in Control transaction or otherwise in connection with or anticipation of the Change in Control. After the occurrence of a Change in Control and during the two-year period beginning on the effective date of the Change in Control, this Plan may not be amended or terminated without the consent of a majority of the Employees who are employed by an Employer at the time of the proposed amendment or termination or who are Eligible Employees receiving severance benefits pursuant to Section 2 of this Plan at such time. Any action to amend or terminate this Plan on or after the date on which a Change in Control occurs, without the foregoing consent, shall not be effective prior to the end of the two-year period beginning on the effective date of the Change in Control.

Section 11. Nature of Plan and Rights. This Plan is an unfunded employee welfare benefit plan and no provision of this Plan shall be deemed or construed to create a trust fund of any kind or to grant a property interest of any kind to any Employee or former Employee. Any payment which becomes due under this Plan to an Eligible Employee shall be made by his or her Employer out of its general assets, and the right of any Eligible Employee to receive a payment hereunder from his or her Employer shall be no greater than the right of any unsecured general creditor of such Employer.

Section 12. Entire Agreement; Offset; No Interference.

(a) This Plan constitutes the entire agreement between the parties and, except as expressly provided herein, supersedes the provisions of all other prior agreements expressly concerning the payment of severance benefits upon a termination of employment in connection with or following a Change in Control; provided, that in no event shall payments or benefits provided pursuant to any other severance agreement or policy entitle Employee to a duplication of payments and benefits pursuant to this Plan and, in the event of an Anticipatory Termination, any amount payable hereunder shall be offset and reduced by the amount of any termination payments or benefits previously provided to Employee under any other severance arrangement with the Company.

(b) Except as expressly provided herein, this Plan shall not interfere in any way with the right of the Company to reduce Employee's compensation or other benefits or terminate Employee's employment, with or without Cause. Any rights that Employee shall have in that regard shall be as set forth in any applicable employment agreement between Employee and the Company.

Section 13. Anticipatory Changes. Notwithstanding any provision in this Agreement to the contrary, no Employee shall suffer any reduction in the level of protections or benefits that would otherwise be enjoyed by the Employee hereunder as a result of any adverse change (including without limitation any such change in Base Salary; Target Bonus; assumptions or calculation methodology used for determining Actual Bonus; insurance coverages; or rank or status as an Elected Officer, Executive or Employee), made in connection with or in anticipation of a Change in Control at the request of, or upon the initiative of, the acquiror in the Change in Control transaction or otherwise in connection with or anticipation of the Change in Control (each, an "Anticipatory Change"). In the event of any such Anticipatory Change, the provisions of this Agreement shall be applied, and any amounts under this Agreement shall be calculated, as if such Anticipatory Change had not occurred.

Section 14. Spendthrift Provision. No right or interest of an Eligible Employee under this Plan may be assigned, transferred or alienated, in whole or in part, either directly or by operation of law, and no such right or interest shall be liable for or subject to any debt, obligation or liability of such Eligible Employee.

Section 15. Notice. Notice of termination for Cause or for Good Reason shall be given in accordance with this Section, and shall indicate the specific termination provision under the Plan relied upon, the relevant facts and circumstances and the effective date of termination. For the purpose of this Plan, any notice and all other communication provided for in this Plan shall be in writing and shall be deemed to have been duly given when received at the respective addresses set forth below, or to such other address as the Company or the Eligible Employee may have furnished to the other in writing in accordance herewith.

If to the Company:

L3 Technologies, Inc.
600 Third Avenue
New York, New York 10016

If to Employee:

To the most recent address of Employee set forth in the personnel records of the Company.

Section 16. Effectiveness. This Plan shall be effective as of the Effective Date and shall remain in effect until terminated pursuant to Section 10 of this Plan.

Exhibit A

CONFIDENTIALITY AND NON-COMPETITION RESTRICTIVE COVENANTS

I. While employed by the Company, and at any time thereafter, no Eligible Employee shall, without the prior written consent of the Company, use, divulge, disclose or make accessible to any other person, firm, partnership, corporation or other entity any Confidential Information pertaining to the business of the Company or any of its affiliates, except when required to do so by applicable law, by a court, by any governmental agency, or by any administrative body or legislative body (including a committee thereof); provided, however, that the Eligible Employee shall give reasonable notice under the circumstances to the Company that he or she has been notified that he or she will be required to so disclose as soon as possible after receipt of such notice in order to permit the Company to take whatever action it reasonably deems necessary to prevent such disclosure and the Eligible Employee shall cooperate with the Company to the extent that it reasonably requests him or her to do so. For purposes of this paragraph I, "Confidential Information" shall mean non-public information concerning the financial data, strategic business plans, product development (or other proprietary product data), customer lists, marketing plans and other non-public, proprietary and confidential information of the Company, its subsidiaries, its affiliates or customers, that, in any case, is not otherwise available to the public (other than by the Eligible Employee's breach of the terms hereof).

II. In consideration of the Company's obligations under the Plan to which this Exhibit A is attached, each Eligible Employee agrees that for a period of twelve (12) months after termination of employment with his or her Employer, without the prior written consent of the Board, (A) he or she will not, directly or indirectly, either as principal, manager, agent, consultant, officer, stockholder, partner, investor, lender or employee or in any other capacity, carry on, be engaged in or have any financial interest in, any (i) entity which is in Competition with the business of the Company or its subsidiaries or (ii) Competitive Activity and (B) he or she shall not, on his or her own behalf or on behalf of any person, firm or company, directly or indirectly, solicit or offer employment to any person who is or has been employed by the Company or its subsidiaries at any time during the twelve (12) months immediately preceding such solicitation. For purposes of this paragraph II: (a) an entity shall be deemed to be in "Competition" with the Company or its subsidiaries if it is principally involved in the purchase, sale or other dealing in any property or the rendering of any service purchased, sold, dealt in or rendered by the Company or its subsidiaries as a part of the business of the Company or its subsidiaries within the same geographic area in which the Company effects such sales or dealings or renders such services at the Relevant Date; and (b) "Competitive Activity" shall mean any business into which the Company or any of its subsidiaries has taken substantial steps to engage, as of the Relevant Date, which would be deemed to be in Competition with the business of the Company or its subsidiaries if such steps had been completed prior to the Relevant Date; and (c) the term "Relevant Date" shall mean the effective date of termination of Employee's employment with his or her Employer.

III. Notwithstanding anything contained in this Exhibit A, nothing herein shall (i) prohibit any Eligible Employee from serving as an officer, employee or independent consultant of any business unit or subsidiary which would not otherwise be in Competition with the Company or its subsidiaries or a Competitive Activity, but which business unit is a part of, or which subsidiary is controlled by, or under common control with, an entity that would be in competition with the Company or its subsidiaries, so long as the Eligible Employee does not engage in any activity which is in Competition with any business of the Company or its subsidiaries or is otherwise a Competitive Activity or (ii) be construed so as to preclude the Eligible Employee from investing in any publicly or privately held company, provided the Eligible Employee's beneficial ownership of any class of such company's securities does not exceed 5% of the outstanding securities of such class.

IV. In the event the Company determines that an Eligible Employee has breached the covenants contained in this Exhibit A, the Company may, in addition to pursuing any other remedies it may have in law or in equity, cease making any payments otherwise required by this Plan and/or obtain an injunction against the Eligible Employee from any court having jurisdiction over the matter restraining any further violation of this Exhibit A by the Eligible Employee. Further, if in the opinion of any court of competent jurisdiction any of the restraints identified herein is not reasonable in any respect, such court shall have the right, power and authority to excise or modify such provision or provisions of this covenant as to the court shall appear not reasonable and to enforce the remainder of the covenant as so amended.

L3 TECHNOLOGIES, INC.

GLOBAL AMENDMENT TO
PERFORMANCE UNIT AGREEMENTS

THIS GLOBAL AMENDMENT (this "**Amendment**"), dated as of July 25, 2018 (the "**Effective Time**"), amends each outstanding Performance Unit Agreement granted on or after February 16, 2016 (each, an "**Award Agreement**") pursuant to the L3 Technologies, Inc. Amended and Restated 2008 Long Term Performance Plan (the "**Plan**"), and is entered into by L3 Technologies, Inc., a Delaware corporation (the "**Company**"). Capitalized terms used herein without definition have the meanings assigned to such terms under the applicable Award Agreement.

WHEREAS, Participants covered by the Award Agreements are eligible to earn a specified number of Performance Units subject to the terms of the applicable Award Agreements;

WHEREAS, the Award Agreements currently provide that in the event of a Change in Control while the Performance Units remain outstanding, (i) the Performance Period will be deemed to terminate as of the Change in Control date, (ii) the "Applicable Unit Multiplier" for purposes of the Performance Units shall be deemed to equal 100% (subject to potential upward adjustment, if so determined by the Committee in accordance with the Award Agreement), (iii) the Participant shall receive payment, within 30 days following the Change in Control date, of a pro-rata portion of the earned Performance Units based on the number of completed months out of the entire (i.e., non-truncated) Performance Period (the "**Original Performance Period**") as of the Change in Control date (such portion, the "**Accelerated Units**"); and (iv) the remaining number of Performance Units covered by the Award Agreement as of the Change in Control date other than the Accelerated Units (the "**Remaining Units**") will be forfeited as of the Change in Control date; and

WHEREAS, the Committee wishes to amend the Award Agreements to provide each Participant with an opportunity to earn the Remaining Units following a Change in Control, subject to the Participant's continued employment through the last day of the Original Performance Period (the "**Original Vesting Date**"), with accelerated vesting following such Change in Control of (i) all Remaining Units, in the event of the Participant's termination without Cause or termination for "Good Reason" (as defined in the Company's Amended and Restated Change in Control Severance Plan) prior to the Original Vesting Date, or (ii) a pro-rata portion of such Remaining Units, in the event the Participant suffers a Disability, or terminates employment due to death or Retirement, prior to the Original Vesting Date;

NOW, THEREFORE, the Company has caused each Award Agreement to be amended as follows as of the Effective Time:

1. Following a Change in Control, the Remaining Units covered by each Award Agreement will continue to vest, subject to the Participant's continued employment through the Original Vesting Date, except as otherwise set forth in Sections 2 and 3 of this Amendment. Any Remaining Units which vest pursuant to the preceding sentence will be paid to the Participant in accordance with the Award Agreement between January 1 and March 15 of the calendar year following the Original Vesting Date.

2. In the event of the Participant's termination of employment by the Company without Cause or termination for Good Reason, in each case, following a Change in Control and prior to the Original Vesting Date, all of the Remaining Units shall immediately vest and shall be paid to the Participant within 30 days following such termination of employment.

3. In the event the Participant suffers a Disability, or terminates employment due to death or Retirement, in each case, following a Change in Control and prior to the Original Vesting Date, a pro-rata portion of the Remaining Units shall immediately vest and shall be paid to the Participant within 30 days following such termination of employment, and the remainder of the Remaining Units shall be forfeited. The pro-rata portion that vests pursuant to the preceding sentence shall be determined based on a fraction, the numerator of which is the number of complete months during which the Participant remained employed by the Company after the Change in Control date, and the denominator of which is the total number of complete months from the Change in Control date until the Original Vesting Date. For purposes of this Section 3, a "complete month" shall refer to each full calendar month occurring between the Change in Control date and the Original Vesting Date and shall also include any partial calendar month during which the Change in Control occurs.

4. In the event of the Participant's termination of employment with the Company following a Change in Control for any reason other than as described in Sections 2 or 3 of this Amendment, any previously unvested portion of the Remaining Units shall be forfeited.

5. References in this Amendment to the Remaining Units shall reflect any adjustments made to the Performance Units pursuant to Section 7 of the Plan (including, without limitation, the potential adjustment of Performance Units to relate to other securities, property or cash).

6. The provisions in this Amendment shall not limit the Committee’s ability to take actions described in Section 7(b) of the Plan with respect to the Remaining Units.

7. All provisions of the Award Agreements that are not expressly amended by this Amendment shall remain in full force and effect.

8. To the extent not preempted by the laws of the United States, the laws of the State of New York shall be the controlling law in all matters related to this Amendment without giving effect to the principles of conflicts of laws, and any dispute arising out of, relating to or in connection with the Amendment shall be subject to the same dispute resolution procedures as provided for in the applicable Award Agreement with respect to any dispute thereunder or, if no such procedures are provided for in any Award Agreement, as provided for in the Plan.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Company has duly executed this Amendment as of the date first set forth above.

By: L3 TECHNOLOGIES, INC.

/s/ Christopher E. Kubasik

Christopher E. Kubasik
Chairman, Chief Executive Officer and President

/s/ Melanie M. Heitkamp

Melanie M. Heitkamp
Senior Vice President and Chief Human Resources Officer

L3 TECHNOLOGIES, INC.

GLOBAL AMENDMENT TO
PERFORMANCE CASH AWARD AGREEMENTS

THIS GLOBAL AMENDMENT (this "**Amendment**"), dated as of July 25, 2018 (the "**Effective Time**"), amends each outstanding Performance Cash Award Agreement granted on or after February 16, 2016 (each, an "**Award Agreement**") pursuant to the L3 Technologies, Inc. Amended and Restated 2012 Cash Incentive Plan (the "**Plan**"), and is entered into by L3 Technologies, Inc., a Delaware corporation (the "**Company**"). Capitalized terms used herein without definition have the meanings assigned to such terms under the applicable Award Agreement.

WHEREAS, Participants covered by the Award Agreements are eligible to earn a specified cash award subject to the terms of the applicable Award Agreements;

WHEREAS, the Award Agreements currently provide that in the event of a Change in Control while the underlying awards remain outstanding, (i) the Performance Period will be deemed to terminate as of the Change in Control date, (ii) the "Applicable Award Multiplier" for purposes of the awards shall be deemed to equal 100% (subject to potential upward adjustment, if so determined by the Committee in accordance with the Award Agreement), (iii) the Participant shall receive payment, within 30 days following the Change in Control date, of a pro-rata portion of the earned cash award based on the number of completed months out of the entire (i.e., non-truncated) Performance Period (the "**Original Performance Period**") as of the Change in Control date (such portion, the "**Accelerated Portion**"); and (iv) the remaining portion of the cash award covered by the Award Agreement as of the Change in Control date other than the Accelerated Portion (the "**Remaining Portion**") will be forfeited as of the Change in Control date; and

WHEREAS, the Committee wishes to amend the Award Agreements to provide each Participant with an opportunity to earn the Remaining Portion following a Change in Control, subject to the Participant's continued employment through the last day of the Original Performance Period (the "**Original Vesting Date**"), with accelerated vesting following such Change in Control of (i) 100% of the Remaining Portion, in the event of the Participant's termination without Cause or termination for "Good Reason" (as defined in the Company's Amended and Restated Change in Control Severance Plan) prior to the Original Vesting Date, or (ii) a pro-rata portion of such Remaining Portion, in the event the Participant suffers a Disability, or terminates employment due to death or Retirement, prior to the Original Vesting Date;

NOW, THEREFORE, the Company has caused each Award Agreement to be amended as follows as of the Effective Time:

1. Following a Change in Control, the Remaining Portion covered by each Award Agreement will continue to vest, subject to the Participant's continued employment through the Original Vesting Date, except as otherwise set forth in Sections 2 and 3 of this Amendment. If the Remaining Portion vests pursuant to the preceding sentence, it will be paid to the Participant in accordance with the Award Agreement between January 1 and March 15 of the calendar year following the Original Vesting Date.

2. In the event of the Participant's termination of employment by the Company without Cause or termination for Good Reason, in each case, following a Change in Control and prior to the Original Vesting Date, 100% of the Remaining Portion shall immediately vest and shall be paid to the Participant within 30 days following such termination of employment.

3. In the event the Participant suffers a Disability, or terminates employment due to death or Retirement, in each case, following a Change in Control and prior to the Original Vesting Date, a pro-rata portion of the Remaining Portion shall immediately vest and shall be paid to the Participant within 30 days following such termination of employment, and the remainder of the Remaining Portion shall be forfeited. The pro-rata portion that vests pursuant to the preceding sentence shall be determined based on a fraction, the numerator of which is the number of complete months during which the Participant remained employed by the Company after the Change in Control date, and the denominator of which is the total number of complete months from the Change in Control date until the Original Vesting Date. For purposes of this Section 3, a "complete month" shall refer to each full calendar month occurring between the Change in Control date and the Original Vesting Date and shall also include any partial calendar month during which the Change in Control occurs.

4. In the event of the Participant's termination of employment with the Company following a Change in Control for any reason other than as described in Sections 2 or 3 of this Amendment, any previously unvested portion of the Remaining Portion shall be forfeited.

5. The provisions in this Amendment shall not limit the Committee's ability to determine to pay out any Remaining Portion on an accelerated basis in connection with a Change in Control, in a manner that complies with Section 5(k) of the Plan.

6. All provisions of the Award Agreements that are not expressly amended by this Amendment shall remain in full force and effect.

7. To the extent not preempted by the laws of the United States, the laws of the State of New York shall be the controlling law in all matters related to this Amendment without giving effect to the principles of conflicts of laws, and any dispute arising out of, relating to or in connection with the Amendment shall be subject to the same dispute resolution procedures as provided for in the applicable Award Agreement with respect to any dispute thereunder or, if no such procedures are provided for in any Award Agreement, as provided for in the Plan.

[*Signature Page Follows*]

IN WITNESS WHEREOF, the Company has duly executed this Amendment as of the date first set forth above.

By: L3 TECHNOLOGIES, INC.
/s/ Christopher E. Kubasik

Christopher E. Kubasik
Chairman, Chief Executive Officer and President

/s/ Melanie M. Heitkamp

Melanie M. Heitkamp
Senior Vice President and Chief Human Resources Officer

Exhibit 31.1

CERTIFICATION

I, Christopher E. Kubasik, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 29, 2018 of L3 Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2018

/s/ Christopher E. Kubasik

Christopher E. Kubasik
Chairman, Chief Executive Officer and President

Exhibit 31.2

CERTIFICATION

I, Ralph G. D'Ambrosio, certify that:

1. I have reviewed this report on Form 10-Q for the quarter ended June 29, 2018 of L3 Technologies, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 26, 2018

/s/ Ralph G. D'Ambrosio

Ralph G. D'Ambrosio
Senior Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of L3 Technologies, Inc. (“L3”) on Form 10-Q for the quarter ended June 29, 2018 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Christopher E. Kubasik, Chief Executive Officer and President and Ralph G. D’Ambrosio, Senior Vice President and Chief Financial Officer, of L3, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of L3.

Date: July 26, 2018

/s/ Christopher E. Kubasik	/s/ Ralph G. D’Ambrosio
Christopher E. Kubasik	Ralph G. D’Ambrosio
Chairman, Chief Executive Officer and President	Senior Vice President and Chief Financial Officer