
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2004

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

For the transition period from

to

Commission file numbers 001-14141 and 333-46983

L-3 COMMUNICATIONS HOLDINGS, INC.

L-3 COMMUNICATIONS CORPORATION

(Exact names of registrants as specified in their charters)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-3937434 and 13-3937436

(I.R.S. Employer Identification Nos.)

600 Third Avenue, New York NY

(Address of principal executive offices)

10016

(Zip Code)

(212) 697-1111

(Telephone number)

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

Title of each class

L-3 Communications Holdings, Inc.

common stock, par value \$0.01 per share

Name of each exchange on which registered:

New York Stock Exchange

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

None.

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. ☒ Yes ☐ No

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in the Rule 12 b-2 of the Act) ☒ Yes ☐ No

The aggregate market value of the L-3 Communications Holdings, Inc. voting stock held by non-affiliates of the registrant as of June 30, 2004 was approximately \$6,654 million. For purposes of this calculation, the Registrants have assumed that their directors and executive officers are affiliates.

There were 116,337,095 shares of L-3 Communications Holdings, Inc. common stock with a par value of \$0.01 outstanding as of the close of business on February 25, 2005.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement to be filed with Securities and Exchange Commission ("SEC") pursuant to Regulation 14A relating to the Registrant's Annual Meeting of Shareholders, to be held on April 26, 2005, will be incorporated by reference in Part III of this Form 10-K. Such proxy statement will be filed with the SEC not later than 120 days after the registrant's fiscal year ended December 31, 2004.

L-3 COMMUNICATIONS HOLDINGS, INC.

L-3 COMMUNICATIONS CORPORATION

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PART I

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

Item 1. Business

L-3 Holdings, a Delaware corporation organized in 1997, derives all of its operating income and cash flow from its wholly-owned subsidiary, L-3 Communications. L-3 Communications, a Delaware corporation, was organized in April 1997. At December 31, 2004, L-3 Holdings had no indebtedness other than its guarantee of the indebtedness under the bank credit facilities of L-3 Communications. L-3 Holdings' 5¼% Convertible Senior Subordinated Notes were converted into L-3 Holdings' common stock in January 2004 and L-3 Holdings' 4% Senior Subordinated Convertible Contingent Debt Securities (CODES) were converted into L-3 Holdings' common stock in October 2004. In order to generate the funds necessary to pay dividends declared and principal and interest on its outstanding indebtedness, if any, L-3 Holdings relies on dividends and other payments from its subsidiaries or it must raise funds in public or private equity or debt offerings.

Overview

We are a leading supplier of a broad range of products used in a substantial number of aerospace and defense platforms. We also are a major supplier of subsystems on many platforms, including those for secure communication networks and communication products, mobile satellite communications, information security systems, shipboard communications, naval power systems, fuzes and safety and arming devices for missiles and munitions, microwave assemblies for radars and missiles, telemetry and instrumentation and airport security systems. We also are a prime system contractor for aircraft modernization and operations & maintenance (O&M), Intelligence, Surveillance and Reconnaissance (ISR) collection systems, training and simulation, and government support services. Our customers include the U.S. Department of Defense (DoD) and its prime contractors, the U.S. Department of Homeland Security (DHS), U.S. Government intelligence agencies, major aerospace and defense contractors, allied foreign government ministries of defense, commercial customers and certain other U.S. federal, state and local government agencies. For the year ended December 31, 2004, direct and indirect sales to the DoD provided 73.4% of our sales. For the year ended December 31, 2004, we generated (1) sales of \$6,897.0 million, of which U.S. customers accounted for 86.9% and foreign customers, including commercial export sales, accounted for 13.1%, (2) net cash from operating activities of \$620.7 million, and (3) operating income of \$748.6 million.

At December 31, 2004, we had four reportable segments: (1) Secure Communications & ISR; (2) Training, Simulation & Government Services; (3) Aircraft Modernization, O&M and Products (formerly known as Aviation Products & Aircraft Modernization); and (4) Specialized Products. Financial information for our reportable segments is included in Management's Discussion and Analysis of Results of Operations and Financial Condition and in Note 18 of our consolidated financial statements.

Business Strategy

We intend to grow our sales, improve our profitability and cash flows and build on our position as a leading supplier of systems, subsystems, products and services to the DoD and other U.S. Government agencies, major aerospace and defense prime contractors and allied foreign governments. In executing our strategy, we expect that

our primary focus will continue to be to grow our defense businesses. Our strategy to achieve our objectives includes:

Expanding Supplier Relationships. As an independent supplier, we anticipate that our growth will be driven by expanding our share of existing programs and by participating in new programs. We intend to identify opportunities where we are able to use our existing customer relationships and leverage the capabilities of our various businesses to expand the scope of products and services and to obtain

customers. We also expect to benefit from continued outsourcing of subsystems and products by prime contractors, which positions us to be a supplier to multiple bidders on prime contract bids. We also intend to grow sales by combining certain of our products into subsystems that we can offer to customers.

Supporting Customer Requirements. We intend to continue to align our research and development, manufacturing and new business efforts to address our customers' requirements and provide them with state-of-the-art products, services and solutions. In addition, we also intend to grow our sales by entering into "teaming" arrangements with select prime system contractors and platform providers.

Improving Operating Margins. We intend to continue to improve our operating performance by continuing to reduce overhead expenses, consolidating certain of our businesses and business processes and increasing the productivity of our businesses.

Leveraging Technical and Market Leadership Positions. We are applying our technical knowledge, expertise and capabilities to expand our core defense businesses and to certain closely aligned defense markets and applications, such as homeland security.

Maintaining Diversified Business Mix. We have an attractive customer profile and a diverse and broad business mix, with limited reliance on any single program. We also have a favorable balance of cost-reimbursable type and fixed-price type contracts with significant follow-on business opportunities.

Capitalizing on Strategic Acquisition Opportunities. In addition to expanding our existing product base through new product development efforts, we intend to continue to acquire select businesses that will add new products or customers in areas that complement our present technologies.

Selected Recent Business Acquisitions

During the year ended December 31, 2004, we used cash of \$473.4 million for business acquisitions. See "Management's Discussion and Analysis of Results of Operations and Financial Condition—Business Acquisitions" for additional detail on our 2004 business acquisitions, including details of their purchase prices. The table below summarizes our business acquisitions in 2004 that had a purchase price greater than \$35.0 million.

Business	Date Acquired	Acquired From	Purchase Price (\$ millions)	Business Description
Beamhit LLC	May 13, 2004	Beamhit LLC Shareholders	\$40.0	Develops and supplies laser marksmanship training systems.
Brashear, LP	June 14, 2004	Brashear, LP	\$36.3	Designs, develops and manufactures electro-optical systems, such as laser ranging and tracking systems, test range instrumentation, telescope systems, naval fire control systems, laser beam directors and ground fire control systems.
Commercial Infrared	November 9, 2004	Raytheon Company	\$44.2	Produces uncooled thermal infrared detectors and imaging systems for the public safety, fire and rescue, security, transportation and industrial markets.

Business	Date Acquired	Acquired From	Purchase Price (\$ millions)	Business Description
Cincinnati Electronics, Inc.	December 9, 2004	CMC Electronics Inc.	\$176.4	Designs, develops and manufactures infrared imaging sensors and subsystems, infrared missile warning systems and space launch electronic subsystems.
Canadian Navigation Systems and Space Sensors Systems	December 30, 2004	Northrop Grumman Corporation	\$65.0	Designs, develops and integrates electronic products and systems for aircraft and ground vehicles, specializing in navigation products, displays and systems support services.

Products and Services

Secure Communications & ISR

The businesses in this segment provide products and services for the global ISR market, specializing in signals intelligence (SIGINT) and communications intelligence (COMINT) systems. These products and services provide to the warfighter in real-time the unique ability to collect and analyze unknown electronic signals from command centers, communication nodes and air defense systems for real-time situation awareness and response. The businesses in this segment also provide secure, high data rate communications systems for reconnaissance and surveillance applications. We believe that our systems and products are critical elements for a substantial number of major communication, command and control, intelligence gathering and space systems. Our systems and products are used to connect a variety of airborne, space, ground and sea-based communication systems and are used in the transmission, processing, recording, monitoring and dissemination functions of these communication systems. We sell these products and services primarily to the DoD and U.S. Government intelligence agencies. Major systems, products and services for this segment include:

- highly specialized fleet management and support services, including procurement, systems integration, sensor development, modifications and maintenance for signals intelligence and ISR special mission aircraft and airborne surveillance systems;
- strategic and tactical signals intelligence systems that detect, collect, identify, analyze and disseminate information;
- secure data links that enable networked communications for airborne, space, ground and sea-based remote platforms, both manned and unmanned, for real-time information collection and dissemination to users;
- secure terminal and communication network equipment and encryption management; and
- communication systems for surface and undersea vessels and manned space flights.

The table below provides additional information for the systems, products and services, selected applications and selected platforms or end users of our Secure Communications & ISR segment at December 31, 2004.

Systems/Products/Services	Selected Applications	Selected Platforms/End Users
<i>ISR Systems</i>		
• Prime mission systems integration, sensor development and operations and support	• Signal processing, airborne SIGINT applications, antenna technology, real-time process control and software development	• U.S. Air Force (USAF) and allied foreign militaries ISR aircraft platforms
• Fleet management of special mission aircraft, including avionics and mission system upgrades and logistics support	• Measurement collection and signal intelligence, special missions	• DoD and special customers within the U.S. Government
<i>Network Communications</i>		
• Airborne, space and surface data link terminals, ground stations, and transportable tactical SATCOM (satellite communications) systems	• High performance, wideband secure communication links for relaying of intelligence and reconnaissance information	• Manned aircraft, Unmanned Aerial Vehicles (UAVs), naval ships, ground vehicles and satellites
• Multi-band Manpack Receivers	• Portable, ruggedized terminals used for receiving reconnaissance video and sensor data from multiple airborne platforms	• U.S. Special Operations Command (USSOCOM), USAF and other DoD customers
• ISR operations and support	• Data link support and services, special applications, classified projects, spares and repairs.	• USAF and U.S. Army ISR aircraft platforms
• Satellite command and control sustainment and support	• Software integration, test and maintenance support, satellite control network and engineering support for satellite launch systems	• USAF Space Command (AFSC), USAF Satellite Control Network and launch ranges

Communications Products

• Secure communication terminals and equipment, and secure network encryption products	• Secure and non-secure voice, data and video communication for office, battlefield and secure internet protocol (IP) network applications	• DoD and U.S. Government intelligence agencies
• Ground-based satellite communication terminals and payloads	• Interoperable, transportable ground terminals	• DoD and U.S. Government intelligence agencies
• Satellite communication and tracking systems	• On-board satellite external communications, video systems, solid state recorders and ground support equipment	• International Space Station, Space Shuttle and various satellites
• Shipboard communications systems	• Internal and external communications (radio rooms)	• U.S. Navy (USN), U.S. Coast Guard and allied foreign navies

The businesses in this segment provide teaching and training services, maintainance and logistics support for training devices, communication systems support and engineering services and marksmanship training systems and services. We sell these products and services primarily to the DoD, U.S. Government intelligence agencies and allied foreign governments. Major products and services for this segment include:

- services designed to meet customer training requirements for aircrews, navigators, mission operators, gunners and maintenance technicians for virtually any platform, including military fixed and rotary wing aircraft, air vehicles and various ground vehicles, and computer-based training systems;
- communication systems and software support, information technology services and a wide range of engineering development services and integration support;
- high-end engineering and information systems support services to the DoD, DHS and U.S. Government intelligence agencies for command, control, communications and ISR architectures, as well as for air warfare modeling and simulation tools for missile and space systems, UAVs and military aircraft;
- developing and managing extensive programs in the United States and internationally that focus on teaching, training and education, logistics, strategic planning, recruiting, organizational design, democracy transition and leadership development; and
- marksmanship training systems and services and supply advanced integrated technologies for command and control security products and services.

The table below provides additional information for the products and services, selected applications and selected platforms or end users of our Training, Simulation & Government Services segment at December 31, 2004.

Products/Services	Selected Applications	Selected Platforms/End Users
Training and Operations		
• Training systems, courseware and doctrine development	• Training and education services for U.S. and allied foreign armed forces, counterintelligence and law enforcement personnel	• U.S. Army, U.S. Marine Corps, U.S. Department of State and allied foreign governments
• Crisis Incident Management System	• Emergency operations support associated with natural disasters, industrial accidents and acts of terrorism	• Federal, state and local government agencies for homeland defense
• Weapons Training	• Laser marksmanship training systems and advanced integrated technologies for security products and services	• DoD and law enforcement agencies

Simulation Services

• Maintenance and logistics support for training devices	• Simulation based training for fixed and rotary wing aircraft	• USAF, USN, U.S. Army and allied foreign government ministries of defense
• Battlefield and weapon simulation	• Missile system modeling and simulation and design and manufacture custom ballistic missile targets	• U.S. Missile Defense Agency (MDA)

Products/Services	Selected Applications	Selected Platforms/End Users
• System support and concept operations (CONOPS)	• C ³ ISR (Command, Control, Communications and ISR), modeling and simulation	• DoD, MDA, U.S. Government intelligence agencies, National Aeronautics & Space Administration (NASA)
Government Services		
• Surveillance systems and products, including installation and logistics support	• Automated security systems for bases and force protection, and remote surveillance for U.S. borders	• U.S. Department of Homeland Security (DHS) and USAF
• Communication systems and software engineering services	• Value-added, critical software support for C ³ ISR systems, electronic warfare and fire support systems	• U.S. Army Communications – Electronics Command (CECOM)
• Acquisition management and installation management	• Rapid fielding support for combatants and physical location management	• U.S. Army
• Information technology (IT) services	• IT infrastructure modernization and operations	• U.S. Government intelligence agencies

Aircraft Modernization, O&M and Products

The businesses in this segment provide specialized aircraft modernization, upgrade, maintenance and logistics support services, highly mobile, quick response field teams, cockpit voice and flight data recorders, traffic alert and collision avoidance systems, terrain awareness warning systems, advanced cockpit avionics products and ruggedized custom cockpit displays. We sell these products and services primarily to the DoD, the Canadian Department of National Defense (DND) and commercial transport, regional, business and general aviation aircraft manufacturers and commerical airlines. Major systems, products and services for this segment include:

- engineering, modification, maintenance, logistics and upgrades for aircraft, vehicles and personnel equipment;
- turnkey aviation life cycle management services that integrate custom developed and commercial off-the-shelf products for various military fixed and rotary wing aircraft, including heavy maintenance and structural modifications and interior modifications and constructions;
- aerospace and other technical services related to large fleet support, such as aircraft and vehicle modernization, maintenance, repair and overhaul, logistics, and supply chain management for military training, tactical, cargo and utility aircraft, anti-missile defense systems and tanks;
- advanced cockpit avionics products and specialized avionics repair and overhaul services for various segments of the aviation market;
- airborne traffic and collision avoidance systems (TCAS) and terrain awareness warning systems (TAWS) for commercial and military applications;
- commercial, solid-state, crash-protected cockpit voice recorders, flight data recorders and cruise ship hardened voyage recorders; and
- ruggedized custom cockpit displays primarily for military applications.

The table below provides additional information for the systems, products and services, selected applications and selected platforms or end users of our Aircraft Modernization, O&M and Products segment at December 31, 2004.

Systems/Products/Services	Selected Applications	Selected Platforms/End Users
<i>Aircraft Modernization</i>		
• Modernization and life extension maintenance upgrades and support	• Aircraft structural modifications and inspections, installation of mission equipment, navigation and avionics products	• USSOCOM, USN, USAF, Canadian DND, various military, fixed and rotary wing aircraft and Head of State (HOS) aircraft
<i>Operations & Maintenance Services</i>		
• Logistics support, maintenance and refurbishment	• Aircraft maintenance repair and overhaul, flight operations support for training, cargo and special mission aircraft	• U.S. Army, USAF, USN, USSOCOM, Canadian DND and other allied foreign militaries
• Contract Field Teams (CFT)	• Deployment of highly mobile, quick response field teams to customer locations to supplement the customer's resources for various ground vehicles and aircraft	• U.S. Army, USAF, USN and U.S. Marine Corp (USMC)
• Contractor operated and managed base supply (COMBS)	• Inventory management activities relating to flight support and maintenance, including procurement and field distribution	• Military training and cargo aircraft
<i>Aviation Products</i>		
• Solid state crash protected cockpit voice and flight data recorders	• Aircraft voice and flight data recorders that continuously record voice and sounds from cockpit and aircraft intercommunications.	• Commercial transport, business, regional and military aircraft
• TCAS (Traffic Alert and Collision Avoidance System)and terrain awareness warning systems (TAWS)	• Reduce the potential for midair aircraft collisions and crashes into terrain by providing visual and audible warnings and maneuvering instructions to pilots	• Commercial transport, business, regional and military aircraft
• Advanced cockpit avionics	• Pilot safety, navigation and situation awareness products	• Commercial transport, business, regional and military aircraft.
• Cockpit and mission displays	• High performance, ruggedized flat panel and cathode ray tube displays and processors	• Various military aircraft

Specialized Products

The businesses in this segment provide a broad range of products, including naval warfare products, security systems, telemetry and navigation products, sensors, training devices, premium fuzing products and microwave components. We sell these products primarily to the DoD, allied foreign militaries, the U.S. Transportation and Security Administration (TSA) and commercial communication manufacturers and providers. Major products for this segment include:

- naval warfare products, including acoustic undersea warfare products for mine hunting, dipping and anti-submarine sonars and naval power distribution, conditioning, switching and protection equipment for surface and undersea platforms;

- ruggedization and integration of commercial off-the-shelf technology for displays, computers and electronic systems for military and commercial applications;
- security systems for aviation and port applications, including those for detection of explosives, concealed weapons, contraband and illegal narcotics, and to inspect agricultural products and to examine cargo;
- telemetry, instrumentation, space and navigation products, including products for tracking and flight termination;
- premium fuzing products and safety and arming devices for missiles and munitions;
- imaging products and precision stabilized electro-optic surveillance systems, including high magnification lowlight, daylight and forward looking infrared sensors, laser range finders, illuminators and designators, and digital and wireless communication systems;
- microwave components used in radar communication satellites, wireless communication equipment, electronic surveillance, communication and electronic warfare applications and countermeasure systems;
- high performance antennas and ground based radomes; and
- training devices and motion simulators which produce advanced virtual reality simulation and high-fidelity representations of cockpits and mission stations for fixed and rotary wing aircraft and land vehicles.

The table below provides additional information for the products, selected applications and selected platforms or end users of our Specialized Products segment at December 31, 2004.

Products	Selected Applications	Selected Platforms/End Users
<i>Naval Products</i>		
• Airborne dipping sonars, submarine and surface ship towed arrays	• Submarine and surface ship detection and localization	• USN and allied foreign navies
• Naval power delivery, conversion and switching products	• Switching, distribution and protection, as well as frequency and voltage conversion	• Naval submarines, surface ships and aircraft carriers
• Shipboard electronics racks, rugged computers, rugged displays and communication terminals	• Ruggedized displays, computers and electronic systems	• Naval vessels and other DoD applications
<i>Security</i>		
• Explosives detection systems and airport security systems	• Rapid scanning of passenger checked baggage and carry-on luggage, scanning of large cargo containers	• DHS, including the TSA, and domestic and foreign airports, state and local governments
<i>Training Devices and Motion Simulators</i>		
• Military aircraft flight simulators, reconfigurable training devices, distributed mission training (DMT) suites	• Advance simulation technologies and training for pilots, navigators, flight engineers, gunners and operators	• Fixed and rotary winged aircraft and ground vehicles for USAF, USN, U.S. Army, Canadian DND and allied foreign militaries
<i>Navigation & Sensors</i>		
• GPS (Global Positioning Systems) receivers	• Location tracking	• Guided projectiles and precision munitions

Products	Selected Applications	Selected Platforms/End Users
• Navigation systems and positioning navigation units	• Satellite launch and orbiting navigation and navigation for ground vehicles and fire control systems	• USAF, U.S. Army, USMC and NASA
• Ultra-wide frequency and advanced radar antennas and radomes	• Surveillance and radar detection	• Military fixed and rotary winged aircraft, SATCOM
• Targeted stabilized camera systems with integrated sensors and wireless communication systems	• Intelligence, Data Collection, Surveillance and Reconnaissance	• DoD, intelligence and security agencies, law enforcement, manned and unmanned platforms
• Telemetry and instrumentation systems	• Real-time data acquisition, measurement, processing, simulation, distribution, display and storage for flight testing	• Aircraft, missiles and satellites
• Airborne and ground based high energy laser beam directors and high tracking rate telescopes	• Directed energy systems, space surveillance, satellite laser ranging and laser communications	• USAF and NASA

<ul style="list-style-type: none"> • Fuzing Products 	<ul style="list-style-type: none"> • Munitions and electronic and electro-mechanical safety and arming devices (ESADs) 	<ul style="list-style-type: none"> • Various DoD and allied foreign military customers
<i>Microwave Components</i>		
<ul style="list-style-type: none"> • Passive components, switches and wireless assemblies 	<ul style="list-style-type: none"> • Radio transmission, switching and conditioning, antenna and base station testing and monitoring 	<ul style="list-style-type: none"> • DoD, wireless communications service providers and original equipment manufacturers
<ul style="list-style-type: none"> • Satellite and wireless components (channel amplifiers, transceivers, converters, filters and multiplexers) 	<ul style="list-style-type: none"> • Satellite transponder control, channel and frequency separation 	<ul style="list-style-type: none"> • SATCOM and wireless communications equipment
<ul style="list-style-type: none"> • Traveling wave tubes, power modules, klystrons and digital broadcast 	<ul style="list-style-type: none"> • Microwave vacuum electron devices and power modules 	<ul style="list-style-type: none"> • DoD and allied foreign military manned/unmanned platforms, various missile programs and commercial broadcast

Backlog and Orders

We define funded backlog as the value of funded orders received from customers, less the amount of sales recognized on those funded orders. We define funded orders as the value of contract awards received from the U.S. Government, for which the U.S. Government has appropriated funds, plus the value of contract awards and orders received from customers other than the U.S. Government. For additional information on our backlog and orders, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Backlog and Orders."

Major Customers

For the year ended December 31, 2004, direct and indirect sales to the DoD provided approximately 73.4% of our total sales. Approximately 61.0% of our sales to the DoD were direct to the customer, and approximately 39.0% of our sales to the DoD were indirect through prime system contractors and subcontractors of the DoD. Additionally, our sales to the DoD were distributed among the U.S. Armed Services, and as a percentage of total 2004 sales, 24.9% was to the U.S. Air Force, 19.0% to the U.S. Army, 15.6% to the U.S. Navy, 0.6% to the U.S. Marines and 13.3% to other defense-wide customers. All U.S.

Government customers, including the DoD and federal, state and local agencies, accounted for 80.3% of our total sales for 2004. For the year ended December 31, 2004, allied foreign governments provided 8.4% of our total sales, and commercial customers provided 11.3% of our total sales. For additional information regarding domestic and foreign sales, see Note 18 to our audited consolidated financial statements.

Our U.S. Government sales are predominantly derived from contracts with agencies of, and prime contractors to, the U.S. Government. Various U.S. Government agencies and contracting entities exercise independent and individual purchasing decisions, subject to annual appropriations by the U.S. Congress. For the year ended December 31, 2004, our largest contract represented 4.6% of our sales and our five largest contracts represented 17.2% of our sales.

Research and Development

We conduct research and development activities that consist of projects involving basic research, applied research, development, and systems and other concept studies. We employ scientific, engineering and other personnel to improve our existing product-lines and develop new products and technologies. As of December 31, 2004, we employed approximately 21,900 engineers, a substantial portion of whom hold advanced degrees, and work on company sponsored research and development efforts, customer funded research and development contracts and production and services contracts. For an analysis of L-3's research and development costs, see "Management's Discussion and Analysis of Results of Operations and Financial Condition — Research and Development."

Competition

We encounter intense competition in all of our businesses. We believe that we are a significant supplier for many of the products that we manufacture and services we provide in our DoD, government and commercial businesses.

Our ability to compete for defense contracts depends on a variety of factors, including:

- the effectiveness and innovation of our technologies and research and development programs;
- our ability to offer better program performance than our competitors at a lower cost;
- historical technical and schedule performance; and
- the capabilities of our facilities, equipment and personnel to undertake the programs for which we compete.

In some instances, we are the incumbent supplier or have been the sole provider for many years for certain programs. We refer to such contracts as "sole-source" contracts. In such cases, there may be other suppliers who have the capability to compete for the programs involved, but they can only enter or reenter the market if the customer chooses to reopen the particular program to competition. Sole-source contracts are generally recompeted every three to five years. Sole-source contracts accounted for 65.5% and competitive contracts accounted for 34.5% of our total sales for the year ended December 31, 2004. The majority of our sales are derived from contracts with the U.S. Government and its prime contractors, which are principally awarded on the basis of negotiations or competitive bids.

We believe that the U.S. defense industry structure contains three tiers of defense contractors. The first tier is dominated by five large prime system contractors: The Boeing Company, Lockheed Martin Corporation, Northrop Grumman Corporation, Raytheon Company and General Dynamics Corporation, all of whom compete for major platform programs. The second tier defense contractors are generally smaller products and niche subsystems contractors and is comprised of traditional aerospace and defense companies, as well as the non-core aerospace and defense businesses of certain larger industrial conglomerates. Some of the defense contractors in

the second tier also compete for platform programs. We believe the second tier includes L-3, Honeywell International Inc., Rockwell Collins Inc., Harris Corporation, ITT Industries, Inc., the North American operations of BAE Systems PLC, Alliant Techsystems Inc., United Technologies Corporation, Computer Sciences Corporation, Science Applications International Corporation, Titan Corporation and United Defense Industries Inc. The third tier represents the vendor base and supply chain for niche products and is comprised of numerous smaller publicly and privately owned aerospace and defense contractors.

We believe we are the aerospace and defense supplier with the broadest and most diverse product portfolio. We primarily compete with second and third tier defense contractors. We supply our products and services to all of the five prime system contractors. However, we also compete directly with the large prime system contractors for (i) certain products and subsystems where they have vertically integrated businesses and (ii) niche areas where we are a prime system contractor, including aircraft modernization and maintenance, ISR systems, simulation and training, and government services. We believe that most of our businesses enjoy the number one or number two competitive position in their respective market niches. We believe that the primary competitive factors for our businesses are technology, research and development capabilities, quality, cost, market position and past performance. In addition, our ability to compete for non "sole-source" contracts often requires us to "team" with one or more of the prime system contractors that bid and compete for major platform programs. Furthermore, our ability to "team" with a prime system contractor is often dependent upon the outcome of a competitive process for subcontracts awarded by the prime contractors. We believe that we will continue to be a successful participant in the business areas in which we compete, based upon the quality and cost competitiveness of our products and services.

Patents and Licenses

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

Raw Materials

In manufacturing our products, we use our own production capabilities as well as a diverse base of third party suppliers and subcontractors. Although aspects of certain of our businesses require relatively scarce raw materials, we have not experienced difficulty in our ability to procure raw materials, components, sub-assemblies and other supplies required in our manufacturing processes.

Contracts

A significant portion of our sales are derived from strategic, long-term programs and from sole-source contracts as discussed above. Our customer satisfaction and performance record is evidenced by our receipt of performance-based award fees exceeding 90% of the available award fees on average during the year ended December 31, 2004. We believe that our customers will award long-term, sole-source contracts to the most capable supplier in terms of quality, responsiveness, design, engineering and program management competency and cost. However, as discussed above, we are increasingly competing against large prime system contractors for major subsystems business. As a consequence of our competitive position, for the year ended December 31, 2004, we won contract awards at a rate in excess of 53% on new competitive contracts that we bid on, and at a rate in excess of 95% on the contracts we rebid for which we were the incumbent supplier.

Generally, our contracts are either fixed-price, cost-reimbursable or time-and-material. On a fixed-price type contract, we agree to perform the contractual statement of work for a predetermined contract price. Although a fixed-price type contract generally permits us to retain profits if the total actual contract costs are less than the estimated contract costs, we bear the risk that increased or unexpected costs may reduce our profit or cause us to sustain losses on the contract. Conversely, on a cost-reimbursable type contract we are paid our allowable incurred costs plus a profit, which can be fixed or variable, depending on the contract's fee arrangement, up to predetermined funding levels determined by our customers. In a time-and-materials type contract we are paid on the basis of direct labor hours expended at specified fixed-price hourly rates (that include wages, overhead, general and administrative expenses and profit) and materials at cost. Therefore, on cost-reimbursable type and time-and-material type contracts we do not bear the risks of unexpected cost overruns, provided that we do not incur costs that exceed the predetermined funded amounts. Generally, a fixed-price type contract offers higher profit

margins than a cost-reimbursable type or time-and-material type contracts, which is commensurate with the greater levels of risk assumed on a fixed-price type contract. Our operating profit margins on fixed-price type contracts generally range between 10% and 15%, while on cost-reimbursable type contracts they generally range between 7% and 10%, and on time-and-material type contracts they generally range between 8% and 12%.

We have a diverse business mix with limited reliance on any single program, a balance of cost-reimbursable, time-and-material and fixed-price type contracts, a significant sole-source follow-on business and an attractive customer profile. The table below presents a summary of the percentage of our sales based on the contract-type of the revenue arrangements which generated our sales.

Contract-Type	Year Ended December 31,		
	2004	2003	2002
Fixed-price	60.6%	63.1%	65.8%
Cost-reimbursable	26.9%	29.8%	25.2%
Time-and-material ⁽¹⁾	12.5%	7.1%	9.0%
Total Sales	100.0%	100.0%	100.0%

(1) Our sales from time-and-material type contracts also include sales on "task order" contracts.

Substantially all of our cost-reimbursable type and time-and-material type contracts are with U.S. Government customers. Substantially all of our sales to commercial customers are transacted under fixed-price

sales arrangements, and are included in our fixed-price contract sales.

Regulatory Environment

Most of our revenue arrangements with agencies of the U.S. Government, including the DoD, are subject to unique procurement and administrative rules. These rules are based on both laws and regulations, including the U.S. Federal Acquisition Regulation (FAR), that (1) impose various profit and cost controls, (2) regulate the allocations of costs, both direct and indirect, to contracts and (3) provide for the non-reimbursement of unallowable costs. Unallowable costs include lobbying expenses, interest expenses and certain costs related to business acquisitions, including, for example, the incremental depreciation and amortization expenses arising from fair value increases to the historical carrying values of acquired assets. Our contract administration and cost accounting policies and practices are also subject to oversight by government inspectors, technical specialists and auditors.

Companies supplying defense-related equipment to the U.S. Government are subject to certain additional business risks specific to the U.S. defense industry. Among these risks is the ability of the U.S. Government to unilaterally suspend a company from new contracts pending resolution of alleged violations of procurement laws or regulations. In addition, U.S. Government contracts are conditioned upon the continuing availability of Congressional appropriations. Congress usually appropriates funds for a given program on a September 30 fiscal year basis, even though contract performance may take several years. Consequently, at the outset of a major program, the contract is usually partially funded, and additional monies are normally committed to the contract by the procuring agency only as appropriations are made by Congress for future fiscal years.

U.S. Government contracts are, by their terms, subject to unilateral termination by the U.S. Government either for its convenience or default by the contractor if the contractor fails to perform the contracts' scope of work. Upon termination, other than for a contractor's default, the contractor will normally be entitled to reimbursement for allowable costs and an allowance for profit. Foreign defense contracts generally contain comparable provisions permitting termination at the convenience of the government.

As is common in the U.S. defense industry, we are subject to business risks, including changes in the U.S. Government's procurement policies (such as greater emphasis on competitive procurement), governmental appropriations, national defense policies or regulations, service modernization plans, and availability of funds. A reduction in expenditures by the U.S. Government for products and services of the type we manufacture and provide, lower margins resulting from increasingly competitive procurement policies, a reduction in the volume of contracts or subcontracts awarded to us or the incurrence of substantial contract cost overruns could materially adversely affect our business.

Certain of our sales are under foreign military sales (FMS) agreements directly between the U.S. Government and allied foreign governments. In such cases, because we serve only as the supplier, we do not have unilateral control over the terms of the agreements. These contracts are subject to extensive legal and regulatory requirements and, from time to time, agencies of the U.S. Government investigate whether our operations are being conducted in accordance with these laws and regulations. Investigations could result in administrative, civil, or criminal liabilities, including repayments, disallowance of certain costs, or fines and penalties.

Certain of our sales are direct commercial sales to allied foreign governments. These sales are subject to U.S. Government approval and licensing under the Arms Export Control Act. Legal restrictions on sales of sensitive U.S. technology also limit the extent to which we can sell our products to allied foreign governments or private parties.

Environmental Matters

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

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

Despite our current level of compliance, new laws and regulations, stricter enforcement of existing laws and regulations, the discovery of previously unknown contamination or the imposition of new clean-up requirements may require us to incur costs in the future that could have a negative effect on our financial condition, results of operations or cash flows.

Pension Plans

In connection with our 1997 acquisition of the ten business units from Lockheed Martin and the formation of L-3, we assumed certain defined benefit pension plan liabilities for present and former employees and retirees of certain businesses which were transferred from Lockheed Martin to us. Prior to this acquisition, Lockheed Martin received a letter from the Pension Benefit Guaranty Corporation (the "PBGC") that requested information regarding the transfer of such pension plans and indicated that the PBGC believed certain of such pension plans were underfunded using the PBGC's actuarial assumptions. The PBGC assumptions result in a larger liability for accrued benefits than the assumptions used for financial reporting under Statement of Financial Accounting Standards No. 87. The PBGC underfunding is related to the Communication Systems—West and Aviation Recorders pension plans (the "Subject Plans").

With respect to the Subject Plans, Lockheed Martin entered into an agreement (the "Lockheed Martin Commitment") with L-3 Communications and the PBGC dated as of April 30, 1997. The material terms and

conditions of the Lockheed Martin Commitment include a commitment by Lockheed Martin to the PBGC to, under certain circumstances, assume sponsorship of the Subject Plans or provide another form of financial support for the Subject Plans. The Lockheed Martin Commitment will continue with respect to any Subject Plan until such time as such Subject Plan is no longer underfunded on a PBGC basis for two consecutive years or, at any time after May 31, 2002, if we achieve investment grade credit ratings on all of our outstanding debt.

Upon the occurrence of certain events, Lockheed Martin, at its option, has the right to decide whether to cause us to transfer sponsorship of any or all of the Subject Plans to Lockheed Martin, even if the PBGC has not sought to terminate the Subject Plans. If Lockheed Martin did assume sponsorship of these plans, it would be primarily liable for the costs associated with funding the Subject Plans or any costs associated with the termination of the Subject Plans, but we would be required to reimburse Lockheed Martin for these costs. To date, there has been no impact on pension expense and funding requirements resulting from this arrangement. In the event Lockheed Martin assumes sponsorship of the Subject Plans we would be required to reimburse Lockheed Martin for all amounts that it contributes to, or costs it incurs with respect to, the Subject Plans. For the year ended December 31, 2004, we contributed \$0.5 million to the Subject Plans. For subsequent years, our funding requirements will depend upon prevailing interest rates, return on pension plan assets and underlying actuarial assumptions. At December 31, 2004, the aggregate projected benefit obligation was \$230.3 million and the aggregate plan assets were \$157.9 million for the Subject Plans

We have performed our obligations under the letter agreement with Lockheed Martin and the Lockheed Martin Commitment and have not received any communications from the PBGC concerning actions that the PBGC contemplates taking in respect of the Subject Plans.

Employees

As of December 31, 2004, we employed approximately 44,200 full-time and part-time employees, 87.7% of whom are located in the United States. Of these employees, approximately 19.8% are covered by 70 separate collective bargaining agreements with various labor unions. Our ability to retain and train our employees is critical to the continued success of our businesses. We have a continuing need for engineers, skilled and professional personnel to grow our businesses, obtain additional orders for our products and services and to satisfy contractual obligations under certain of our existing revenue arrangements. We believe that relations with our employees are positive.

Available Information

We are subject to the informational requirements of the Securities Exchange Act of 1934 and, in accordance therewith, file reports and other information with the SEC. Such reports and other information can be inspected and copied at the Public Reference Room of the SEC located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington D.C. 20549 and at a regional public reference facility maintained by the SEC located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the Public Reference Room of the SEC at prescribed rates. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Such material may also be accessed electronically by means of the SEC's home page on the Internet at <http://www.sec.gov>.

You may also obtain a free copy of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports on the day of filing with the SEC or through our website on the Internet at <http://www.L-3com.com>.

The Company also has a Corporate Governance webpage. You can access the Company's Corporate Governance documents through our Internet site, www.L-3com.com by clicking on the "Investor Information" link under the heading "Investor Relations." The Company posts a Code of Ethics and Business Conduct on its Investor Information webpage under the link "Corporate Ethics Guidelines."

The Company's Code of Ethics and Business Conduct applies to all directors, officers and employees, including our chief executive officer, our chief financial officer, our principal accounting officer and our controller. We will post any amendments to the Code of Ethics and Business Conduct, and any waivers that are required to be disclosed by the rules of either the SEC or the New York Stock Exchange, Inc. ("NYSE"), on our Internet site. The information on the Company's Internet site is not incorporated by reference into this report. You can request a copy of our code of ethics at no cost, by contacting Investor Relations at (212) 850-5600.

Item 2. Properties

The table below provides information about the significant facilities and properties of each of our segments at December 31, 2004.

Location	Owned	Leased
	<i>(thousands of square feet)</i>	
L-3 Corporate Offices, New York, NY	—	52.9
Washington Operations, Arlington, VA	—	13.3
Secure Communication & ISR:		
Camden, NJ	—	575.0
Mason, OH	228.0	
Greenville, TX	—	3,089.4
Salt Lake City, UT	—	703.3
Training, Simulation & Government Services:		
Huntsville, AL	—	101.6
Colorado Springs, CO	—	75.3
Kirkwood, NY	—	428.0
Arlington, TX	21.3	29.2

Alexandria, VA	—	99.7
Arlington, VA	—	91.7
Chantilly, VA	—	103.9

Aircraft Modernization, O&M and Products:

Selma, AL	—	174.0
Phoenix, AZ	—	90.3
Sarasota, FL	—	143.7
Alpharetta, GA	93.0	—
Rolling Meadows, IL	45.0	6.7
Lexington, KY	—	1,005.3
Grand Rapids, MI	110.0	—
South Madison, MS	—	164.0
Waco, TX	801.4	221.1
Edmonton, Canada	—	366.3
Enfield, Canada	96.0	—
Mirabel, Canada	397.2	81.2
Toronto, Canada	258.5	—

Specialized Products:

Anaheim, CA	—	474.2
Menlo Park, CA	—	98.3
San Carlos, CA	191.6	—
San Diego, CA	196.0	209.2
Sylmar, CA	—	253.0
Largo, FL	46.4	—
Ocala, FL	111.7	—
St. Petersburg, FL	—	129.8
Auburn, MA	—	97.2
Salem, NH	55.8	—
Budd Lake, NJ	—	114.0
Hauppauge, NY	—	150.0
Cincinnati, OH	222.6	—
Tulsa, OK	—	133.3
Lancaster, PA	—	144.7
Philadelphia, PA	—	165.0
Pittsburgh, PA	—	151.0
Williamsport, PA	208.6	—
Arlington, TX	60.7	153.4
Grand Prairie, TX	—	125.0
Burlington, Canada	—	124.0
Leer, Germany	32.2	33.2

At December 31, 2004, in the aggregate, we owned approximately 3.3 million square feet and leased approximately 12.8 million square feet of manufacturing facilities and properties.

Item 3. Legal Proceedings

From time to time we are involved in legal proceedings arising in the ordinary course of our business. We believe that we are adequately reserved for these liabilities and that there is no litigation that will have a material adverse effect on our consolidated results of operations, financial condition or cash flows. However, as discussed below, we are a party to a number of material litigations, for which an adverse determination could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

L-3 Integrated Systems and its predecessors have been involved in a litigation with Kalitta Air arising from a contract to convert Boeing 747 aircraft from passenger configuration to cargo freighters. The lawsuit was brought in the northern district of California on January 31, 1997. The aircraft were modified using Supplemental Type Certificates (STCs) issued in 1988 by the Federal Aviation Administration (FAA) to Hayes International, Inc. (Hayes/Pemco) as a subcontractor to GATX/Airlog Company (GATX). Between 1988 and 1990, Hayes/Pemco modified five aircraft as a subcontractor to GATX using the STCs. Between 1990 and 1994, Chrysler Technologies Airborne Systems, Inc. (CTAS), a predecessor to L-3 Integrated Systems, performed as a subcontractor to GATX and modified an additional five aircraft using the STCs. Two of the aircraft modified by CTAS were owned by American International Airways, the predecessor to Kalitta Air. In 1996, the FAA determined that the engineering data provided by Hayes/Pemco supporting the STCs was inadequate and issued an Airworthiness Directive that effectively grounded the ten modified aircraft. The Kalitta Air aircraft have not been in revenue service since that date. The matter was tried in January 2001 against GATX and CTAS with the jury finding fault on the part of GATX but rendering a unanimous defense verdict in favor of CTAS. Certain co-defendants had settled prior to trial. The U.S. Ninth Circuit Court of Appeals reversed and remanded the trial court's summary judgment rulings in favor of CTAS regarding a negligence claim by Kalitta Air, which asserts that CTAS as an expert in aircraft modification should have known that the STCs were deficient, and excluding certain evidence at trial. In preparation for retrial, Kalitta Air submitted to us an expert report on damages that calculated Kalitta Air's damages at either \$232 million or \$602 million, depending on different factual assumptions. We retained experts whose reports indicate that, even in the event of an adverse jury finding on the liability issues at trial, Kalitta Air has already recovered amounts from the other parties to the initial suit that we believe more than fully compensated Kalitta Air for any damages it incurred. CTAS' insurance carrier has accepted defense of the matter with a reservation of its right to dispute its obligations under the applicable insurance policy in the event of an adverse jury finding. The trial began on January 18, 2005, and ended on March 2, 2005 with a deadlocked jury and a mistrial. At trial, Kalitta Air claimed damages of \$235 million. Although no date has been set for any further proceedings, a second retrial may be necessary in this matter. We believe that we have meritorious defenses and intend to continue to vigorously defend this matter. However,

litigation is inherently uncertain and it is possible that an adverse decision could be rendered, which could have a material adverse effect on our consolidated financial position, results of operations or cash flows.

On November 18, 2002, we initiated a proceeding against OSI Systems, Inc. (OSI) in the United States District Court sitting in the Southern District of New York seeking, among other things, a declaratory judgment that we had fulfilled all of our obligations under a letter of intent with OSI (the "OSI Letter of Intent"). Under the OSI Letter of Intent, we were to negotiate definitive agreements with OSI for the sale of certain businesses we acquired from PerkinElmer, Inc. on June 14, 2002. On February 7, 2003, OSI filed an answer and counterclaims alleging, among other things, that we defrauded OSI, breached obligations of fiduciary duty to OSI and breached our obligations under the OSI Letter of Intent. OSI is seeking damages in excess of \$100 million, not including punitive damages. Under the OSI Letter of Intent, we proposed selling to OSI the conventional detection business and the ARGUS business that we acquired from PerkinElmer, Inc. Negotiations with OSI lasted for almost one year and ultimately broke down over issues regarding, among other things, intellectual property, product-line definitions, allocation of employees and due diligence. Discovery on the matter is essentially complete. We believe that the claims asserted by OSI in its suit are without merit and intend to vigorously defend against the OSI claims.

L-3 Communications Vertex Aerospace LLC (formerly known as Vertex Aerospace LLC and acquired by L-3 Communications on December 1, 2003) (L-3 Vertex) is named as a defendant in one remaining wrongful death lawsuit in the United States District Court, Western District of North Carolina arising from the crash of Air Midwest Flight 5481 at Charlotte-Douglas International Airport in Charlotte, North Carolina on January 8, 2003. The crash resulted in the deaths of nineteen passengers and two crewmembers. Each of the lawsuits alleges contributing factors, including that the accident was caused by the improper maintenance of the aircraft by L-3 Vertex, and seeks to recover compensatory and punitive damages. Twenty claims resulting from this incident have previously settled. The National Transportation Safety Board (NTSB) investigated the cause of the crash and has concluded that the crash was caused by the incorrect rigging of the elevator control system compounded by the airplane's center of gravity, which was substantially aft of the certified limit, with several other contributing factors. L-3 Vertex believes that it has meritorious defenses to the pending lawsuit, and intends to defend the case vigorously. The actions have been tendered to L-3 Vertex's insurance carrier, who has accepted the defense of each action served upon L-3 Vertex to date. L-3 Vertex was also indemnified by Air Midwest for losses L-3 Vertex incurred arising out of its provision of maintenance services to Air Midwest. Based on the availability of insurance and the indemnification from Air Midwest, we do not believe we will have a material liability in this matter.

On July 1, 2004, lawsuits were filed on behalf of the estates of 31 Russian children in the state courts of Washington, Arizona, California, Florida, New York and New Jersey against Honeywell, Honeywell TCAS, L-3 Communications, ACSS, Thales USA and Thales France. The suits are based on facts arising out of the crash over southern Germany of a Bashkirian Airways Tupelov TU 154M aircraft and a DHL Boeing 757 cargo aircraft. On-board the Tupelov aircraft were 12 crew members and 57 passengers, including 45 children. The Boeing aircraft carried a crew of 3. Both aircrafts were equipped with Honeywell/ACSS Model 2000, Change 7 Traffic Collision and Avoidance Systems. Sensing the other aircraft, the on-board DHL TCAS instructed the DHL pilot to climb, and the Tupelov on-board TCAS instructed the Tupelov pilot to descend. However, the Swiss air traffic controller ordered the Tupelov pilot to climb. The Tupelov pilot disregarded the on-board TCAS and put the Tupelov aircraft into a climb striking the DHL aircraft in midair at approximately 35,000 feet. All crew and passengers of both planes were lost. Investigations by the NTSB after the crash revealed that both TCAS units were performing as designed. The suits allege negligence and strict product liability based upon the design of the units and the training provided to resolve conflicting commands and seek compensatory damages. Our insurers have accepted defense of the matter and retained counsel. All parties subsequently agreed to litigate this matter in the Federal Court in New Jersey and to dismiss the actions brought in the state courts. Based on the defenses available to us and the insurance coverage, we do not expect L-3 Communications or ACSS to incur a material liability in this matter.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

Price Range of Common Stock

The common stock of L-3 Holdings is traded on the New York Stock Exchange (the "NYSE") under the symbol "LLL". The table below sets forth, for each of the quarterly periods indicated, the high and low closing price of the common stock as reported on the NYSE and the amount of dividends paid per share.

	Dividends Paid	Price Range of Common Stock	
		High	Low
Fiscal Year Ended December 31, 2003:			
Quarter Ended:			
March 31, 2003	—	\$ 47.90	\$ 35.60
June 30, 2003	—	46.22	36.24
September 30, 2003	—	51.09	42.35
December 31, 2003	—	51.60	43.57
Fiscal Year Ended December 31, 2004:			
Quarter Ended:			
March 31, 2004	\$ 0.10	\$ 59.48	\$ 49.80
June 30, 2004	0.10	66.80	59.73
September 30, 2004	0.10	67.00	56.50
December 31, 2004	0.10	76.87	62.51

On February 10, 2005, L-3 Holdings announced that its Board of Directors had increased L-3 Holdings' regular quarterly cash dividend by 25% to \$0.125 per share, payable on March 15, 2005, to shareholders of record at the close of business on February 22, 2005. L-3 Holdings paid its first cash dividend on March 15, 2004.

On February 25, 2005, the closing price of L-3 Holdings common stock, as reported by the NYSE, was \$72.24 per share and the number of holders of L-3 Holdings' common stock was approximately 86,000.

L-3 Holdings relies on dividends paid by L-3 Communications to generate the funds necessary to pay dividends on its common stock. See "Management's Discussion and Analysis – Liquidity and Capital Resources" for the financial and other restrictive covenants that limit the payment of dividends by L-3 Communications to L-3 Holdings.

Equity Compensation Plan Information

The table below sets forth information about shares of L-3 Holdings common stock that may be issued under our equity compensation plans as of December 31, 2004.

Plan category	Equity Compensation Plan Information		
	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	9,887,781 ⁽¹⁾	\$ 32.87 ⁽²⁾	6,016,521
Equity compensation plans not approved by security holders	105,500 ⁽³⁾	44.45	291,500
Total	<u>9,993,281</u>	<u>\$ 32.99</u>	<u>6,308,021</u>

(1) Includes the 1999 Long-Term Performance Plan and the 1997 Stock Option Plan and includes restricted stock awards of 78,840 shares.

(2) The calculation of the weighted average exercise price excludes the effect of the restricted stock awards of 78,840 shares, which have been granted to employees at no cost.

(3) Represents the 1998 Option Plan for Non-Employee Directors of L-3 Holdings.

Item 6. Selected Financial Data

We derived the selected financial data presented below at December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 from our audited consolidated financial statements included elsewhere in this Form 10-K. We derived the selected financial data presented below for the years ended December 31, 2001 and 2000 and at December 31, 2002, 2001 and 2000 from our audited consolidated financial statements not included in this Form 10-K. You should read the selected financial data together with our "Management's Discussion and Analysis of Results of Operations and Financial Condition" and our audited consolidated financial statements. Our results of operations, cash flows and financial position are impacted significantly by our business acquisitions.

	Year Ended December 31,				
	2004	2003	2002 ⁽¹⁾	2001 ⁽¹⁾	2000 ⁽¹⁾
	(in millions, except per share data)				
Statement of Operations Data:					
Sales	\$ 6,897.0	\$ 5,061.6	\$ 4,011.2	\$ 2,347.4	\$ 1,910.1
Operating income	748.6	581.0	454.0	275.3	222.7
Other expense (income), net	(7.3)	(0.2)	(5.0)	(1.8)	(4.4)
Interest expense	145.3	132.7	122.5	86.4	93.0
Loss on retirement of debt	5.0	11.2	16.2	—	—
Minority interests in net income of consolidated subsidiaries	8.9	3.5	6.2	4.4	—
Provision for income taxes	214.8	156.2	111.6	70.8	51.4
Income before cumulative effect of a change in accounting principle	381.9	277.6	202.5	115.5	82.7
Cumulative effect of a change in accounting principle	—	—	(24.4)	—	—
Net income	\$ 381.9	\$ 277.6	\$ 178.1	\$ 115.5	\$ 82.7
Basic earnings per common share:					
Income before cumulative effect of a change in accounting principle	\$ 3.54	\$ 2.89	\$ 2.33	\$ 1.54	\$ 1.24
Cumulative effect of a change in accounting principle	—	—	(0.28)	—	—
Net income	\$ 3.54	\$ 2.89	\$ 2.05	\$ 1.54	\$ 1.24
Diluted earnings per common share: ⁽²⁾					
Income before cumulative effect of a change in accounting principle	\$ 3.33	\$ 2.62	\$ 2.13	\$ 1.47	\$ 1.18
Cumulative effect of a change in accounting principle	—	—	(0.23)	—	—
Net income	\$ 3.33	\$ 2.62	\$ 1.90	\$ 1.47	\$ 1.18
Weighted average common shares outstanding:					
Basic	107.8	96.0	86.9	74.9	66.7

Diluted	117.4	113.9	105.2	85.4	69.9
Cash dividends declared per share on L-3 Holdings' common stock	\$ 0.40	\$ —	\$ —	\$ —	\$ —
Balance Sheet Data (at period end):					
Working capital	\$ 1,632.5	\$ 1,013.5	\$ 929.4	\$ 717.8	\$ 360.9
Total assets	7,780.8	6,505.3	5,242.3	3,339.2	2,463.5
Long-term debt	2,189.8	2,457.3	1,847.8	1,315.3	1,095.0
Minority interests	77.5	76.2	73.2	69.9	—
Shareholders' equity	3,799.8	2,574.5	2,202.2	1,213.9	692.6

- (1) In accordance with SFAS 142, effective January 1, 2002, we ceased amortizing goodwill.
- (2) Reported diluted EPS amounts for the years ended prior to January 1, 2004 have been restated in accordance with EITF 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share*. The impact of applying EITF 04-8 to our 4% Senior Subordinated Convertible Contingent Debt Securities (CODES) resulted in (1) an increase to diluted weighted average common shares outstanding of 7.8 million shares for 2003 and 2002, (2) a non-cash reduction of \$0.09 to diluted EPS for 2003, (3) a non-cash reduction of \$0.05 to diluted EPS before cumulative effect of a change in accounting principle for 2002, and (4) a non-cash reduction of \$0.03 to diluted EPS for 2002. The CODES were not included in diluted weighted average common shares outstanding for 2001 because their impact on diluted EPS was anti-dilutive. Diluted weighted average common shares outstanding and diluted EPS for 2000, were not affected by EITF 04-8 because we issued the CODES in 2001.

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

Overview

We are a leading supplier of a broad range of products used in a substantial number of aerospace and defense platforms. We also are a major supplier of subsystems on many platforms, including those for secure communication networks and communication products, mobile satellite communications, information security systems, shipboard communications, naval power systems, fuzes and safety and arming devices for missiles and munitions, microwave assemblies for radars and missiles, telemetry and instrumentation, and airport security systems. We also are a prime system contractor for aircraft modernization and O&M, ISR collection platforms, training and simulation, and government support services. The substantial majority of our sales are generated using written revenue arrangements, or contracts. Most of these contracts require us to design, develop, manufacture, modify, upgrade, test and integrate complex aerospace and electronic equipment, and to provide related engineering and technical services according to the buyer's specifications. Our primary customer is the DoD. For the year ended December 31, 2004, direct sales to the DoD and indirect sales to the DoD through its prime contractors and subcontractors provided \$5,060.1 million, or 73.4% of our consolidated sales. Our other customers include the DHS, U.S. Government intelligence agencies, major aerospace and defense contractors, allied foreign government ministries of defense, commercial customers and certain other U.S. federal, state and local government agencies.

Our objective is to grow our sales organically and through business acquisitions and to improve our profitability. To achieve these objectives we intend to expand our share of existing programs and to participate in new programs by leveraging our existing customer relationships. We expect to continue to benefit from the outsourcing of subsystems, components and products by prime contractors. We plan to continue to align our research and development, manufacturing and new business efforts to complement our customers' requirements and to provide state-of-the-art products. We plan to maintain a diversified and broad business mix with limited reliance on any single program, a favorable balance of cost-reimbursable and fixed-price type contracts, a significant follow-on business and an attractive customer profile. A significant portion of our growth strategy is to selectively acquire companies or assets that complement and enhance our existing businesses. See —"Business Acquisitions" below.

We have four reportable segments: (1) Secure Communications & ISR; (2) Training, Simulation & Government Services; (3) Aircraft Modernization, O&M and Products (formerly known as Aviation Products & Aircraft Modernization); and (4) Specialized Products.

Our Secure Communications & ISR segment provides products and services for the global ISR market as well as secure, high data rate communications systems and equipment primarily for military and other U.S. Government and allied foreign government reconnaissance and surveillance applications. We believe our systems and products are critical elements for a substantial number of major communication, command and control, intelligence gathering and space systems. Our systems and products are used to connect a variety of airborne, space, ground and sea-based communication systems and are used in the transmission, processing, recording, monitoring and dissemination functions of these communication systems. Our Training, Simulation & Government Services segment provides maintenance and logistics support for training devices, communication systems support and engineering services, teaching and training services and marksmanship training systems and services. Our Aircraft Modernization, O&M and Products segment provides specialized aircraft modernization, upgrade and maintenance services and logistics support services, traffic alert and collision avoidance systems, terrain awareness warning systems, cockpit voice and flight data recorders, advanced cockpit avionics products and ruggedized custom cockpit displays. Our Specialized Products segment provides a broad range of products, including naval warfare products, telemetry and navigation products, sensors, premium fuzing products, security systems, training devices and microwave components.

In recent years, domestic and geo-political developments have significantly affected the markets for defense systems, products and services. There has been a fundamental and philosophical shift in focus from a "threat-based" model to one that emphasizes the capabilities needed to defeat a full spectrum of adversaries, which has transformed the U.S. defense posture to a capabilities-based orientation. This approach involves creating the ability for (1) a more flexible response, with greater force agility and

stronger space capabilities, and (2) improved missile defense systems, network communications and information systems, and security systems. This transformation also includes an increased emphasis on homeland defense. The Afghanistan and Iraq wars have confirmed several of the conclusions reached in the U.S. quadrennial Defense Review completed in 2001 and have also resulted in increased DoD spending, primarily for war operations.

Over the past several years, the DoD budgets have experienced increased focus on command, control, communications, intelligence, surveillance and reconnaissance (C³ISR), precision-guided weapons, unmanned aerial vehicles (UAVs), network-centric communications, Special Operations Forces (SOF) and missile defense. In addition, the DoD philosophy has focused on a transformation strategy that balances modernization and recapitalization (or upgrading existing platforms) while enhancing readiness and joint operations. As a result, defense budget program allocations continue to favor advanced information technologies related to command, control and communications (C³) and ISR. Furthermore, the DoD's emphasis on system interoperability, force multipliers and providing battlefield commanders with real-time data is increasing the electronic content of nearly all major military procurement and research programs. As a result, it is expected that the DoD's budget for communications and defense electronics will continue to grow. We believe L-3 is well positioned to benefit from the expected increased spending in those areas. While there is no assurance that the requested DoD budget increases, particularly those for the DoD Procurement account, and Research, Development, Test and Evaluation account (collectively referred to as the "DoD Investment Account"), will continue to be approved by Congress, the current outlook is one of increased DoD spending, which we believe will continue to positively affect L-3's future orders and sales and favorably affect our future operating profits and cash flows because of increased sale volumes. Conversely, a decline in the DoD budget would generally have a negative effect on future orders, sales, operating profits and cash flows of defense contractors, including L-3, depending on the weapons platforms and programs affected by such budget reductions. However, L-3 believes that its businesses are significant participants in the sectors of the DoD Investment Account and Operations and Maintenance account that are the highest priority for U.S. military transformation, and we believe that they will continue to be, even in a declining DoD budget environment.

In addition, increased emphasis on U.S. homeland security may increase demand for our capabilities in areas such as security systems, information security, crisis management, preparedness and prevention services, and civilian security operations.

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

Business Acquisitions

A significant component of our growth strategy has been to enhance our existing product base through selective business acquisitions that will add new products in areas that complement our present technologies. We intend to continue acquiring select businesses that (1) exhibit significant market positions in their business areas, (2) offer products that complement and/or extend our product offerings and expand our customer base, and (3) display positive sales, earnings and cash flow prospects.

The table below summarizes the more significant acquisitions that we have completed during 2002, 2003 and 2004, referred to herein as business acquisitions. During 2004, we used cash of \$473.4 million for business acquisitions. See "Statement of Cash Flows—Investing Activities."

Business Acquisitions	Date Acquired	Purchase Price⁽¹⁾ <i>(in millions)</i>
<u>2002</u>		
Aircraft Integration Systems (AIS) business of Raytheon Company	March 8, 2002	\$ 1,148.7 ⁽²⁾
Detection Systems	June 14, 2002	110.3
Telos Corporation (a California Corporation)	July 19, 2002	22.3
ComCept, Inc.	July 31, 2002	37.1 ⁽³⁾
Technology, Management and Analysis Corporation (TMA)	September 23, 2002	52.7
Electron Devices and Displays-Navigation Systems – San Diego businesses of Northrop Grumman ⁽⁴⁾	October 25, 2002	135.7
Wolf Coach, Inc.	October 31, 2002	7.2 ⁽⁵⁾
International Microwave Corporation (IMC)	November 8, 2002	41.1
Westwood Corporation	November 13, 2002	22.1
Wescam Inc.	November 21, 2002	124.3
Ship Analytics, Inc	December 19, 2002	20.0 ⁽⁶⁾
<u>2003</u>		
Avionics Systems business of Goodrich Corporation ⁽⁷⁾	March 28, 2003	188.7
Aeromet, Inc.	May 30, 2003	18.4
Klein Associates Inc.	September 30, 2003	29.4
Military Aviation Services business of Bombardier, Inc. (MAS)	October 31, 2003	89.6 ⁽⁸⁾
Vertex Aerospace LLC (Vertex)	December 1, 2003	664.8 ⁽⁹⁾
Certain defense and aerospace assets of IPICOM, Inc.	December 10, 2003	27.6
<u>2004</u>		
Beamhit LLC	May 13, 2004	40.0 ⁽¹⁰⁾ (11)
Brashear, LP	June 14, 2004	36.3
Commercial Infrared business of Raytheon Company ⁽¹²⁾	November 9, 2004	44.2
Cincinnati Electronics, Inc.	December 9, 2004	176.4 ⁽¹⁰⁾ (13)
Canadian Navigation Systems and Space Sensors System business of Northrop Grumman ⁽¹⁴⁾	December 30, 2004	65.0 ⁽¹⁰⁾
AVISYS, Inc., General Electric Driver Development business, Bay Metals, D.P. Associates, certain video security product lines of Sarnoff Corporation and BAI Aerosystems	Various	72.7 ⁽¹⁵⁾

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- (1) The purchase price represents the contractual consideration for the acquired business, excluding adjustments for net cash acquired and acquisition costs.
 - (2) Includes \$18.7 million related to additional assets contributed by Raytheon Company (Raytheon) to AIS. Following the acquisition, we changed AIS's name to L-3 Communications Integrated Systems (IS). The purchase price is subject to adjustment based on actual closing date tangible net assets, as discussed in Note 3 to the consolidated financial statements.
 - (3) The purchase price consists of \$14.5 million of cash and 229,494 shares of L-3 Holdings' common stock valued at \$10.6 million, which were paid on the closing date of the acquisition, plus an additional 219,028 shares of L-3 Holdings' common stock valued at \$12.0 million issued during 2003 and 2004, which was based on Concept's financial performance for the fiscal years ended June 30, 2003 and 2004.
 - (4) Following the acquisition, we changed the name of the Displays-Navigation Systems - San Diego business to L-3 Ruggedized Command & Control.

- (5) Excludes additional purchase price, not to exceed \$1.4 million, which is contingent upon the financial performance of Wolf Coach for the year ending December 31, 2005.
 - (6) Excludes additional purchase price, not to exceed \$4.5 million, which is contingent upon the financial performance of Ship Analytics for the year ending December 31, 2005.
 - (7) Following the acquisition, we changed the name of Avionics Systems to L-3 Communications Avionics Systems, Inc.
 - (8) Includes a \$2.2 million final purchase price adjustment paid in October of 2004, which was based on the actual closing date net assets of MAS.
 - (9) Includes a \$3.3 million purchase price adjustment paid on the closing date and a \$11.5 million final purchase price adjustment paid during the second quarter of 2004.
 - (10) The purchase price is subject to adjustment based on actual closing date net assets or net working capital of the acquired business.
 - (11) Excludes additional purchase price, which is contingent upon the financial performance of Beamhit for the years ending December 31, 2005, 2006 and 2007.
 - (12) Following the acquisition, we changed the name of the Commercial Infrared business to L-3 Communications Infrared Products (LIP).
 - (13) Includes a \$5.4 million preliminary purchase price adjustment paid on the closing date.
 - (14) Following the acquisition, we changed the name of the Canadian Navigation Systems and Space Sensors System business to L-3 Communications Electronics Systems (LES).
 - (15) Excludes additional purchase price, expected not to exceed \$31.5 million, which is contingent upon the financial performance of certain of these acquired businesses for years ended December 31, 2005 and 2006.
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Additionally, during 2002, 2003 and 2004, we purchased other businesses, which individually and in the aggregate were not material to our consolidated results of operations, financial position or cash flows during the year acquired.

All of our business acquisitions are included in our consolidated results of operations from their respective effective dates of acquisition. We regularly evaluate potential business acquisitions and joint venture transactions. On February 3, 2005, we acquired substantially all of the components of the Marine Controls division of CAE and will acquire the remaining business components after we receive the required regulatory approvals. On February 25, 2005, we acquired the Propulsion Systems business unit of General Dynamics. On February 28, 2005, we acquired the Electron Dynamic Devices business of the Boeing Company. The aggregate purchase price paid in cash for these business acquisitions was \$471.8 million. We financed these acquisitions using cash on hand. We have not entered into any other agreements with respect to any material transactions through the date of this filing.

Critical Accounting Policies

Our significant accounting policies are described in Note 2 to the consolidated financial statements. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of sales and costs and expenses during the reporting period. The most significant of these estimates and assumptions relate to (i) contract revenues and costs, (ii) market values for inventories reported at lower of cost or market, (iii) pension and postretirement benefit obligations, (iv) preliminary purchase price allocations for the acquired assets and assumed liabilities of acquired businesses, (v) recoverability and valuation of recorded amounts of long-lived assets, identifiable intangible assets and goodwill, (vi) income taxes, including the valuations of deferred tax assets, (vii) litigation reserves, and (viii) environmental obligations. Actual amounts will differ from these estimates. We believe that our critical accounting estimates have the following attributes: (1) we are required to make assumptions about matters that are uncertain and inherently risky at the time of the estimate; (2) use of reasonably different assumptions could have changed our estimates, particularly with respect to estimates of contract revenues and costs, and (3) changes in the estimate could have a material effect on our financial condition or results of operations. We believe the following critical accounting policies contain the more significant judgments and estimates used in the preparation of our financial statements.

Contract Revenue Recognition and Contract Estimates. The substantial majority of our contracts (revenue arrangements) require us to design, develop, manufacture, modify, upgrade, test and integrate

complex aerospace and electronic equipment, and to provide related engineering and technical services according to the buyer's specifications. These sales are transacted using written revenue arrangements or contracts, which are generally either fixed price, cost-reimbursable or time and material. These contracts are covered by the American Institute of Certified Public Accountants Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (SOP 81-1) and Accounting Research Bulletin No. 45, *Long-term Construction-Type Contracts* (ARB 45). In addition, cost-reimbursable contracts are also specifically covered by Accounting Research Bulletin No. 43, Chapter 11, Section A, *Government Contracts, Cost-Plus-Fixed Fee Contracts* (ARB 43). Substantially all of our cost-reimbursable and time and material contracts are with the U.S. Government, primarily with the Department of Defense. Certain of our contracts with the U.S. Government are multi-year contracts that are funded annually by the customer, and sales on these multi-year contracts are based on amounts appropriated (funded) by the U.S. Government.

Sales and profits on fixed-price contracts are substantially recognized using percentage-of-completion methods of accounting. Sales and profits on fixed-price production contracts under which units are produced and delivered in a continuous or sequential process are recorded as units are delivered based on their contractual selling prices (the "units-of-delivery" method). Sales and profits on other fixed-price production contracts under

which units are not produced and delivered in a continuous or sequential process or under which a relatively few number of units are produced are recorded based on the ratio of incurred costs to total estimated costs at completion of the contract (the "cost-to-cost" method). Under the percentage-of-completion methods of accounting, a single estimated total profit margin is used to recognize profit for each contract over its entire period of performance, which can exceed one year. Sales and profits on fixed-price contracts that require us to perform services that are not related to production of tangible assets are recognized in accordance with SAB No. 104, *Revenue Recognition* (SAB 104).

Accounting for the sales on a fixed-price contract requires the preparation of estimates of (1) the total contract revenue, (2) the total costs at completion, which is equal to the sum of the actual incurred costs to date on the contract and the estimated costs to complete the contract's statement of work, and (3) the measurement of progress towards completion. The estimated profit or loss at completion on a contract is equal to the difference between the total estimated contract revenue and the total estimated cost at completion. Under the units-of-delivery percentage-of-completion method, sales on a fixed-price contract are recorded as the units are delivered during the period at an amount equal to the contractual selling price of those units. Under the cost-to-cost percentage-of-completion method, sales on a fixed-price contract are recorded at amounts equal to the ratio of cumulative costs incurred and total estimated costs at completion, multiplied by (i) the total estimated contract revenue, less (ii) the cumulative sales recognized in prior periods. The profit recorded on a contract in any period using either the units-of-delivery method or cost-to-cost method is equal to (i) the current estimated total profit margin multiplied by the cumulative sales recognized, less (ii) the amount of cumulative profit previously recorded for the contract. In the case of a contract for which the total estimated costs exceed the total estimated revenues, a loss arises, and a provision for the entire loss is recorded in the period that it becomes evident. The unrecoverable costs on a loss contract that are expected to be incurred in future periods are recorded as a component of other current liabilities entitled "Estimated cost in excess of estimated contract value to complete contracts in process." Adjustments to original estimates for a contract's revenue, estimated costs at completion and estimated profit or loss are often required as work progresses under a contract, as experience is gained and as more information is obtained, even though the scope of work required under the contract may not change, or if contract modifications occur.

Sales on cost-reimbursable type contracts are recognized as allowable costs are incurred on the contract and become billable to the customer, at an amount equal to the allowable costs plus the estimated profit on those costs. The estimated profit on a cost-reimbursable contract is generally fixed or variable based on the contract fee arrangement. Sales on time-and-material type contracts are recognized at an amount equal to the direct labor hours expended multiplied by the contractual fixed rate per hour, plus the actual costs of material and other direct non-labor costs. On a time-and-material contract the fixed hourly rates include amounts for the cost of direct labor, indirect contract costs and profit. Cost-reimbursable or time-and-material contracts generally contain less estimation risks than fixed-price contracts.

The impact of revisions in profit estimates for all types of contracts are recognized on a cumulative catch-up basis in the period in which the revisions are made. Provisions for anticipated losses on contracts are recorded in the period in which they become evident. Amounts representing contract change orders or claims are included in sales only when they can be reliably estimated and their realization is reasonably assured. The revisions in contract estimates, if significant, can materially affect our results of operations and cash flows, as well as our valuations of contracts in process.

Goodwill and Identifiable Intangible Assets. In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, we allocate the cost of acquired businesses (commonly referred to as the purchase price allocation) to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. As part of the purchase price allocations for our acquired businesses, identifiable intangible assets are recognized as assets apart from goodwill if they arise from contractual or other legal rights, or if they are capable of being separated or divided from the acquired business and sold, transferred, licensed, rented or exchanged, unless the intangible asset is comprised of the assembled workforce of the acquired business.

Generally, the substantial majority of the intangible assets from the businesses that we acquire are derived from the intellectual capital of the management, administrative, scientific, engineering and technical employees of the acquired businesses. The success of our businesses is primarily dependent on the management, contracting, engineering and technical skills and knowledge of our employees, rather than productive capital (machinery and equipment). Generally, patents, trademarks and licenses are not material to our acquired businesses. Furthermore, our U.S. Government contracts (revenue arrangements) generally permit other companies to use our patents in most domestic work performed by such other companies for the U.S. Government. Therefore, the substantial majority of the intangible assets for our acquired businesses are recognized as goodwill.

The values assigned to acquired identifiable intangible assets for customer relationships and technology are determined, as of the date of acquisition, based on estimates and judgments regarding expectations for the estimated future after-tax cash flows from those assets over their lives, including the probability of expected future contract renewals and sales, less a cost-of-capital charge, all of which is discounted to present value. If actual future after-tax cash flows differ significantly from their estimates, we may be required to record an impairment charge to write down the identifiable intangible assets to their realizable values. The value assigned to goodwill equals the amount of the purchase price of the business acquired in excess of the sum of the amounts assigned to identifiable acquired assets, both tangible and intangible, less liabilities assumed. At December 31, 2004, we had goodwill of \$4,054.8 million and identifiable intangible assets of \$185.8 million.

We review goodwill and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable, and also review goodwill annually in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142). SFAS No. 142 requires that goodwill be tested, at a minimum, annually for each reporting unit using a two-step process. A reporting unit is an operating segment, as defined in paragraph 10 of SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, or a component of an operating segment. A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and is reviewed. Two or more components of an operating segment may be aggregated and deemed a single reporting unit if the components have similar economic characteristics. The first step is to identify any potential impairment by comparing the carrying value of the reporting unit to its fair value. If a potential impairment is identified, the second step is to compare the implied fair value of goodwill with the carrying value of the goodwill to measure the impairment loss. The fair value of a reporting unit is estimated using a discounted cash flow valuation approach, and is dependent on estimates for future sales, operating income, depreciation and amortization, income tax payments, working capital changes, and capital expenditures, as well as, expected growth rates for cash flows and long-term interest rates, all of which are impacted by economic conditions related to the industries in which we operate as well as conditions in the U.S. capital markets. A decline in estimated fair

value of a reporting unit could result in an impairment charge to goodwill, which could have a material adverse effect on our business, financial condition and results of operations.

Pension Plan and Postretirement Benefit Plan Obligations. The obligations for our pension plans and postretirement benefit plans and the related annual costs of employee benefits are calculated based on several long-term assumptions, including discount rates for employee benefit liabilities, rates of return on plan assets, expected annual rates for salary increases for employee participants in the case of pension plans, and expected annual increases in the costs of medical and other health care benefits in the case of postretirement benefit obligations. These long-term assumptions are subject to revision based on changes in interest rates, financial market conditions, expected versus actual returns on plan assets, participant mortality rates and other actuarial assumptions, including future rates of salary increases, benefit formulas and levels, and rates of increase in the costs of benefits. Changes in the assumptions, if significant, can materially affect the amount of annual net periodic benefit costs recognized in our results of operations from one year to the next, the liabilities for the pension plans and postretirement benefit plans, and our annual cash requirements to fund these plans.

Valuation of Deferred Income Tax Assets and Liabilities. At December 31, 2004, we had net deferred tax assets of \$119.1 million, including \$3.8 million for loss carryforwards and \$18.5 million for tax credit carryforwards which are subject to various limitations and will expire if unused within their respective carryforward periods. Deferred income taxes are determined separately for each of our tax-paying entities in each tax jurisdiction. The future realization of our deferred income tax assets ultimately depends on our ability to generate sufficient taxable income of the appropriate character (for example, ordinary income or capital gains) within the carryback and carryforward periods available under the tax law, and to a lesser extent, our ability to execute successful tax planning strategies. Based on our estimates of the amounts and timing of future taxable income and tax planning strategies, we believe that L-3 will be able to realize its deferred tax assets. A change in the ability of our operations to continue to generate future taxable income, or our ability to implement desired tax planning strategies, could affect our ability to realize the future tax deductions underlying our net deferred tax assets, and require us to provide a valuation allowance against our net deferred tax assets. The recognition of a valuation allowance would result in a reduction to net income and if significant, could have a material impact on our effective tax rate, results of operations and financial position in any given period.

Results of Operations

The following information should be read in conjunction with our consolidated financial statements. Our results of operations for the periods presented are impacted significantly by our business acquisitions. See Note 3 to the audited consolidated financial statements for a discussion of our business acquisitions.

Presentation of Sales and Costs and Expenses. On the statements of operations, L-3 presents its sales and costs and expenses in two categories, "Contracts, primarily U.S. Government" and "Commercial, primarily products." For a detailed description of these two categories, refer to Note 2 to the audited consolidated financial statements.

The tables below provide two presentations of sales, operating income and operating margin data for L-3 for the years ended December 31, 2004, 2003 and 2002. The first table presents the selected data segregated between L-3's U.S. Government contractor businesses and L-3's commercial businesses. The second table presents the selected data by reportable segment. See Note 18 to the audited consolidated financial statements.

	Year Ended December 31,		
	2004	2003	2002
	(in millions)		
<u>Statement of Operations Presentation</u>			
Sales:			
Contracts, primarily U.S. Government ⁽¹⁾	\$ 6,155.6	\$ 4,401.7	\$ 3,581.3
Commercial, primarily products ⁽¹⁾	741.4	659.9	429.9
Consolidated	<u>\$ 6,897.0</u>	<u>\$ 5,061.6</u>	<u>\$ 4,011.2</u>
Operating income:			
Contracts, primarily U.S. Government ⁽¹⁾	\$ 678.8	\$ 537.9	\$ 442.3
Commercial, primarily products ⁽¹⁾	69.8	43.1	11.7
Consolidated	<u>\$ 748.6</u>	<u>\$ 581.0</u>	<u>\$ 454.0</u>
Operating margin ⁽²⁾ :			
Contracts, primarily U.S. Government	11.0%	12.2%	12.3%
Commercial, primarily products	9.4%	6.5%	2.7%
Consolidated	10.9%	11.5%	11.3%

Reportable Segment Presentation

Sales ⁽³⁾ :			
Secure Communications & ISR	\$ 1,663.6	\$ 1,439.4	\$ 1,053.3
Training, Simulation & Government Services ⁽⁴⁾	1,259.6	1,009.3	808.6
Aircraft Modernization, O&M and Products ⁽⁵⁾	2,289.8	1,019.6	677.5
Specialized Products ⁽⁴⁾	1,684.0	1,593.3	1,471.8
Consolidated	<u>\$ 6,897.0</u>	<u>\$ 5,061.6</u>	<u>\$ 4,011.2</u>
Operating income:			
Secure Communications & ISR	\$ 218.0	\$ 172.9	\$ 103.5
Training, Simulation & Government Services ⁽⁴⁾	149.2	115.5	96.8
Aircraft Modernization, O&M and Products ⁽⁵⁾	249.6	147.8	105.7
Specialized Products ⁽⁴⁾	131.8	144.8	148.0

Consolidated	<u>\$ 748.6</u>	<u>\$ 581.0</u>	<u>\$ 454.0</u>
Operating margin ⁽²⁾ :			
Secure Communications & ISR	13.1%	12.0%	9.8%
Training, Simulation & Government Services ⁽⁴⁾	11.8%	11.4%	12.0%
Aircraft Modernization, O&M and Products ⁽⁵⁾	10.9%	14.5%	15.6%
Specialized Products ⁽⁴⁾	7.8%	9.1%	10.1%
Consolidated	10.9%	11.5%	11.3%

(1) Effective January 1, 2004, we combined our explosives detection systems (EDS) business into L-3 Communications Security and Detection Systems, our IMC business into L-3 Communications Government Services, Inc. (GSI), the EMP business into our ESSCO business and the Apcom business into our Communications Systems-East business (2004 Business Realignment). As a result of the 2004 Business Realignments, reclassifications between "Contracts, primarily U.S. Government" and "Commercial, primarily products" have been made to the prior period sales and operating income amounts, however, since EDS was primarily a U.S. Government contracting business prior to 2003, the sales and operating income for EDS were not reclassified from 2002. Specifically, \$96.5 million of 2003 sales, \$9.1 million of 2002 sales, \$26.3 million of 2003 operating income and \$6.1 million of 2002 operating loss was reclassified from "Contracts, primarily U.S. Government" to "Commercial, primarily products". Additionally, \$30.6 million of 2003 sales, \$9.2 million of 2002 sales, \$2.1 million of 2003 operating income and \$7.4 million of 2002 operating loss was reclassified from "Commercial, primarily products," to "Contracts, primarily U.S. Government". The 2004 Business Realignments and related reclassifications did not result in any changes to our consolidated results of operations, financial position or cash flow.

(2) Operating margin is equal to operating income as a percentage of sales.

(3) Sales are after intersegment eliminations. See Note 18 to the consolidated financial statements.

(4) Effective January 1, 2004, we combined our IMC business into GSI. As a result of this realignment of management responsibilities, \$29.1 million of 2003 sales, \$2.3 million of 2002 sales, \$3.9 million of 2003 operating income and \$0.3 million of 2002 operating income was reclassified from the Specialized Products segment to the Training, Simulation & Government Services segment. This reclassification to our reportable segments did not result in any changes to our consolidated results of operations, financial position or cash flows.

(5) During the 2004 Third Quarter, we changed the name of the reportable segment from Aviation Products & Aircraft Modernization to Aircraft Modernization, O&M and Products. The business and reporting units included in this reportable segment were not changed.

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

Consolidated sales increased by \$1,835.4 million, or 36.3%, to \$6,897.0 million for 2004 from \$5,061.6 million for 2003. Organic sales growth for our defense businesses was 16.3%, or \$721.6 million, driven by continued strong demand for our secure communications and ISR systems, aircraft modernization, aviation products, training and government services, training devices, sensors and imaging products and naval power equipment and services. Organic sales growth for our commercial and other non-military businesses was 6.6%, or \$41.9 million, primarily due to increased volume for commercial aviation products and security products, partially offset by lower sales volume for explosives detection systems (EDS). The decrease in EDS sales was caused primarily by a later-than-expected receipt of an order from the U.S. Transportation and Security Administration. The increase in consolidated sales from acquired businesses was \$1,071.9 million, or 21.2%. We define "organic sales growth," as the increase or decrease in sales for the current period compared to the prior period, excluding the increase in sales attributable to acquired businesses to the extent the acquired businesses were not included in our results of operations for the prior period, determined on a monthly basis. Our sales for "defense businesses" include our U.S. Government contractor businesses, all of which are presented under "Contracts, primarily U.S. Government" (Government Businesses) and commercial aviation products sold to military customers, which is presented under "Commercial, primarily products" (Commercial Businesses).

Sales from our Government Businesses increased by \$1,753.9 million, or 39.8%, to \$6,155.6 million for 2004 from \$4,401.7 million for 2003. The increase in sales from acquired businesses was \$1,037.1 million, or 23.6%. The acquired businesses include Aeromet, Klein, MAS, Vertex, and certain defense and aerospace assets of IPICOM, Inc., all of which were acquired in 2003, and AVISYS, Bay Metals, Beamhit, Brashear, Cincinnati Electronics, D.P. Associates, Inc. and the GEDD business, all of which were acquired in 2004. Sales from our Commercial Businesses increased by \$81.5 million, or 12.4%, to \$741.4 million for 2004 from \$659.9 million for 2003. The increase in sales from the Avionics Systems and Flight Systems Engineering acquired businesses, which were acquired in 2003, and Infrared Products, which was acquired in 2004, was \$34.8 million.

Consolidated costs and expenses increased by \$1,667.8 million, or 37.2%, to \$6,148.4 million for 2004 from \$4,480.6 million for 2003. Costs and expenses for our Government Businesses increased by \$1,613.0 million, or 41.7%, to \$5,476.8 million for 2004 from \$3,863.8 million for 2003. The costs and expenses related to the increase in sales from acquired businesses was \$973.1 million. The remaining increase is primarily attributed to costs and expenses associated with the organic sales growth of our defense businesses. Cost of sales for L-3's U.S. Government contractor businesses include selling, general and

administrative (SG&A), independent research and development (IRAD) and bid and proposal (B&P) costs. These SG&A, IRAD and B&P costs are allowable indirect contract costs that are allocated to our U.S. Government contracts in accordance with U.S. Government regulations. We report SG&A, IRAD and B&P costs allocated to U.S. Government contracts as costs of sales when the related contract sales are recognized, rather than account for them as period expenses. SG&A, IRAD and B&P costs included in costs and expenses for L-3's Government Businesses were \$582.8 million for 2004 and \$499.9 million for 2003. The increase of \$82.9 million was primarily attributable to the MAS, Vertex and Brashear acquired businesses and organic sales growth from our defense businesses. See Note 4 to our audited consolidated financial statements. Costs and expenses for our Commercial Businesses increased by \$54.8 million, or 8.9%, to \$671.6 million for 2004 from \$616.8 million for 2003. Cost of sales increased by \$41.9 million to \$458.9 million for 2004 from \$417.0 million for 2003. The increase in cost of sales was primarily due to increased costs attributable to the Avionics Systems acquired business and higher sales volume for our commercial aviation products. SG&A expenses increased by \$0.9 million to \$141.5 million for 2004 from \$140.6 million for 2003, and declined as a percentage of sales to 19.1% from 21.3% due to cost and expense reductions and sales volume increases. R&D expenses increased by \$12.0 million to \$71.2 million for 2004 from \$59.2 million for 2003, primarily due to development expenditures for Smartdeck™.

Consolidated operating income increased by \$167.6 million, or 28.8%, to \$748.6 million for 2004 from \$581.0 million for 2003. Consolidated operating margin decreased to 10.9% from 11.5% for the 2004 compared to 2003. The changes in the operating margins for our segments are discussed below. Operating income for our Government Businesses increased by \$140.9 million, or 26.2%, to \$678.8 million for 2004 from \$537.9 million

for 2003. Operating margin declined by 1.2 percentage points to 11.0% for 2004 from 12.2% for 2003. Operating margin decreased primarily due to expected lower operating margins from the Vertex Aerospace acquired business. The 2003 operating income also included a \$4.5 million gain related to the settlement of a claim. Operating income for our Commercial Businesses increased by \$26.7 million, or 61.9%, to \$69.8 million for 2004 from \$43.1 million for 2003. Operating margin increased by 2.9 percentage points to 9.4% for 2004 from 6.5% for 2003, primarily because of cost reductions for microwave components, higher sales volume for commercial aviation products and cost and expense reductions at our PrimeWave Communications business. These increases were partially offset by development expenditures for Smartdeck™, certification costs for new commercial aviation products and fewer than expected sales of higher margin EDS systems.

Interest expense increased by \$12.6 million to \$145.3 million for 2004 from \$132.7 million for 2003 because of higher levels of outstanding debt during 2004 compared to the levels of outstanding debt during 2003. Average outstanding debt during 2004 was \$2,233.5 million compared to \$2,059.5 million during 2003. Our outstanding debt increased as a result of the issuance of \$650.0 million of 5 7/8% senior subordinated notes in November 2004, \$400.0 million of 6 1/8% senior subordinated notes in December of 2003 and \$400.0 million of 6 1/8% senior subordinated notes in May of 2003. The increase in our outstanding debt was partially offset by the early retirement of our \$200.0 million of 8% senior subordinated notes in December 2004 and \$180.0 million of 8½% senior subordinated notes in June of 2003 and the conversion into L-3 Holdings Common Stock of our \$420.0 million of 4% senior subordinated convertible contingent debt securities (CODES) in October 2004 and \$300.0 million of 5¼% convertible senior subordinated notes in January of 2004.

Other expense (income), net, for 2004 was \$7.3 million of income and includes \$6.8 million of interest and investment income. Other expense (income), net for 2003 was \$0.2 million of income. The increase from 2003 to 2004 was primarily due to higher interest and investment income.

Minority interest in net income of consolidated subsidiaries increased by \$5.4 million to \$8.9 million for 2004 from 3.5 million for 2003, primarily due to net income for the Army Fleet Support LLC, which is 80% owned by L-3.

The income tax provision for 2004 and 2003 is based on an effective income tax rate of 36.0%. Basic EPS increased by \$0.65 to \$3.54 for 2004 from \$2.89 for 2003. Diluted EPS increased by \$0.71 to \$3.33 for 2004 from \$2.62 for 2003. Net income for 2004 includes an after-tax debt retirement charge of \$3.2 million, or \$0.03 per diluted share, relating to the retirement of \$200.0 million of 8% senior subordinated notes. Net income for 2003 includes an after-tax debt retirement charge of \$7.2 million, or

\$.06 per diluted share related to the retirement of \$180.0 million of 8½% senior subordinated notes. Excluding these debt retirement charges from both periods, diluted EPS would have increased by \$0.68 for 2004 compared to 2003.

Secure Communications & ISR

Sales within our Secure Communications & ISR segment increased by \$224.2 million, or 15.6%, to \$1,663.6 million for 2004 from \$1,439.4 million for 2003. Organic sales growth was \$190.3 million, or 13.2%, reflecting continued strong demand from the DoD and other U.S. Government agencies for our secure network communications, ISR systems and communications products. The increase in sales from acquired businesses was \$33.9 million, or 2.4%, and was primarily attributable to Aeromet and certain defense and aerospace assets of IPICOM, Inc., which were acquired in 2003.

Operating income increased by \$45.1 million to \$218.0 million for 2004 from \$172.9 million for 2003 because of higher sales volume for communications products and ISR systems and lower operating losses for the PrimeWave Communications business due to cost and expense reductions. Operating margin increased by 1.1 percentage points to 13.1% for 2004 from 12.0% for 2003, primarily because of organic sales growth for ISR systems and communications products and cost reductions and lower operating losses in 2004 as compared to 2003 for the PrimeWave Communications business. These improvements to operating margin were partially offset by a loss related to the design, development and testing activities on a production contract for transportable tactical satellite communications terminals, which reduced operating margin by 0.2 percentage points.

Training, Simulation & Government Services

Sales within our Training, Simulation & Government Services segment increased by \$250.3 million, or 24.8%, to \$1,259.6 million for 2004 from \$1,009.3 million for 2003. Organic sales growth was \$227.3 million, or 22.5%, driven by increased volume for both training and government services. The increase in sales from acquired businesses was \$23.0 million. The acquired businesses include Beamhit and the GEDD business, both of which were acquired during the second quarter of 2004 and D.P. Associates, Inc., which was acquired on October 8, 2004.

Operating income increased by \$33.7 million to \$149.2 million for 2004 from \$115.5 million for 2003 because of higher sales volume for training and operations services. Operating margin increased by 0.4 percentage points to 11.8% for 2004 from 11.4% for 2003 due to cost efficiencies from the growth in sales.

Aircraft Modernization, O&M and Products

Sales within our Aircraft Modernization, O&M and Products segment increased by \$1,270.2 million, or 124.6%, to \$2,289.8 million for 2004 from \$1,019.6 million for 2003. The increase in sales from acquired businesses was \$967.6 million. The acquired businesses include Vertex, MAS, Avionics Systems and Flight Systems Engineering, which were acquired during 2003, and AVISYS, which was acquired in June 2004. Organic sales growth was \$302.6 million, or 29.7%, driven by higher sales for aircraft modernization, operations and maintenance, which includes the U.S. Army Aviation and Missile Command (AMCOM) contract, and commercial and military aviation products.

Operating income increased by \$101.8 million to \$249.6 million for 2004 from \$147.8 million for 2003 because of higher sales volume, which was partially offset by lower operating margin. Operating margin declined by 3.6 percentage points to 10.9% for 2004 from 14.5% for 2003. Margins from acquired businesses, primarily Vertex, decreased operating margin by 3.2 percentage points. The remaining decrease was primarily due to higher sales volume of lower margin aircraft modification and logistics support under cost-reimbursable-type contracts, partially offset by higher margins for commercial aviation products.

Specialized Products

Sales within our Specialized Products segment increased by \$90.7 million, or 5.7%, to \$1,684.0 million for 2004 from \$1,593.3 million for 2003. The increase in sales from acquired businesses was \$47.4 million.

The acquired businesses include Klein, which was acquired in September 2003, and Bay Metals, Brashear and Infrared Products, which were acquired during 2004. Organic sales growth was \$43.3 million, or 2.7%. The increase was driven by increased sales of \$92.8 million primarily for training devices, imaging products, naval power equipment and services, maintenance of security systems and fuzing products. These increases were partially offset by volume declines of \$49.5 million for EDS, ruggedized computers and displays and undersea warfare products.

Operating income decreased by \$13.0 million to \$131.8 million for 2004 from \$144.8 million for 2003 primarily because of changes in product sales mix for security products and telemetry products, and a \$4.5 million gain in 2003 related to a settlement of a claim recorded in 2003. These decreases were partially offset by operating income for naval power equipment businesses in 2004, as compared to operating losses in 2003, cost reductions for microwave components and higher volume for imaging products and naval power equipment and services. Operating margin decreased by 1.3 percentage points to 7.8% for 2004 from 9.1% for 2003. Operating margin decreased by 1.7 percentage points primarily due to lower margins for security products, including fewer than expected sales of higher margin EDS and 0.3 percentage points due to the settlement of a claim recorded in 2003. These decreases were partially offset by an increase of 0.7 percentage points for naval power equipment businesses.

Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

Consolidated sales increased by \$1,050.4 million, or 26.2%, to \$5,061.6 million for 2003 from sales of \$4,011.2 million for 2002. The increase in consolidated sales from acquisitions was \$833.6 million, or 20.8%. Organic sales growth for our defense businesses was 15.4%, or \$499.8 million, and was driven by continued strong demand for secure communications and intelligence, surveillance and reconnaissance (ISR) systems and products, aircraft modernization, simulation and training services, government services, and an increase in shipments of naval power equipment. Organic sales for our commercial businesses declined by 10.6%, or \$45.4 million, due to the continued weakness in the aviation and communications markets. Sales for explosives detection systems (EDS) decreased \$237.6 million primarily because the initial installation of EDS at major U.S. airports by the U.S. Transportation Security Administration (TSA) was completed by the end of 2002. Consolidated organic sales growth, excluding the EDS business, from both periods was 12.4%. Consolidated organic sales growth for all of our businesses, including the decline for the EDS business, was \$216.8 million, or 5.4%.

Sales from our Government Businesses, which comprises our defense businesses, excluding commercial aviation products sold to military customers, and in 2002, our EDS business, increased by \$820.4 million, or 22.9%, to \$4,401.7 million for 2003 from \$3,581.3 million for 2002. The increase in sales from acquired businesses was \$659.7 million, or 18.4%. The acquired businesses include IS, Telos, ComCept, TMA, Electron Devices, Ruggedized Command & Control, IMC, Westwood, Wescam and Ship Analytics, which were acquired in 2002 and Aeromet, Klein, MAS, Vertex and certain defense and aerospace assets of IPICOM, Inc., which were acquired during 2003. Excluding sales from acquired businesses, sales increased by \$253.5 million primarily because of organic sales growth from our defense businesses for ISR and secure communications systems and products, aircraft modernization, communications software and engineering support services, training services, navigation products and naval power equipment. These increases were partially offset by a decline in sales volume primarily from our EDS business, and to a lesser extent, from our fuzing products, training devices, undersea warfare products and display systems. Additionally, sales were reduced by \$92.8 million because of a reclassification, primarily related to the EDS business, between our Government Businesses and our Commercial Businesses due to the 2004 Business Realignment discussed in the table above.

Sales from our Commercial Businesses increased by \$230.0 million, or 53.5%, to \$659.9 million for 2003 from \$429.9 million for 2002. The increase in sales from acquired businesses was \$173.9 million, or 40.5%. The acquired businesses include Detection Systems and Wolf Coach, which were acquired in 2002 and Avionics Systems, which was acquired during 2003. Excluding sales from acquired businesses, organic sales declined for our commercial businesses by \$36.7 million, due primarily to lower revenues for aviation and communications products caused by weak demand in those commercial markets. Additionally, sales increased by \$92.8 million as a result of the reclassification due to the 2004 Business Realignments.

Consolidated costs and expenses increased by \$923.4 million to \$4,480.6 million for 2003 from \$3,557.2 million for 2002, consistent with the increase in sales.

Costs and expenses for our Government Businesses increased by \$724.8 million to \$3,863.8 million for 2003 from \$3,139.0 million for 2002. Approximately 81% of the increase is attributable to our acquired businesses. The remaining increase is primarily attributed to organic sales growth from our defense businesses for ISR and secure communications systems and products, aircraft modernization, communications software and engineering support services, training services, navigation products and naval power equipment. These increases were partially offset by declines from our EDS business, fuzing products, training devices and display systems due to lower volume. SG&A, IRAD and B&P costs included in cost of sales for our Government Businesses were \$499.9 million, or 11.4% of sales for 2003, compared to \$432.8 million, or 12.1% of sales for 2002 (See Notes 2 and 4 to our consolidated financial statements).

Costs and expenses for our Commercial Businesses increased by \$198.6 million to \$616.8 million for 2003 from \$418.2 million for 2002. The increase was primarily due to increased sales attributable to our acquired businesses, as well as a \$3.9 million provision for bad debt and inventory for the PrimeWave Communications business. SG&A expenses increased by \$28.6 million to \$140.6 million or 21.3% of sales for 2003 from \$112.0 million or 26.1% of sales for 2002. The increase was primarily attributable to acquired businesses and increased costs for security products due to maintenance costs associated with detection systems placed in service. This increase was partially offset by lower SG&A expenses at the PrimeWave Communications business and our commercial communications products businesses due to cost and expense reductions. Research and development (R&D) expenses increased by \$23.5 million to \$59.2 million for 2003 from \$35.7 million for 2002. The increase was primarily due to the Avionics Systems acquired business and development expenses for cargo security products, partially offset by lower R&D expenses incurred at the PrimeWave Communications business because of cost and expense reductions.

Consolidated operating income increased by \$127.0 million to \$581.0 million for 2003 from \$454.0 million for 2002. The increase was primarily due to higher sales from all of our segments. Consolidated operating margin

increased slightly by 0.2 percentage points to 11.5% for 2003 from 11.3% for 2002. The changes in the operating margins for our segments are discussed below.

Operating income for our Government Businesses increased by \$95.6 million to \$537.9 million for 2003 from \$442.3 million for 2002. Operating income was reduced by \$22.9 million because of the reclassification due to the 2004 Business Realignments. Operating margin declined slightly by 0.1 percentage points to 12.2% for 2003 from 12.3% for 2002. The reclassification due to the 2004 Business Realignments reduced operating margin by 0.3 percentage points. Operating margin increased by 0.2 percentage points primarily due to sales growth and cost improvements for ISR and secure communications systems and products and naval power equipment.

Operating income for our Commercial Businesses increased by \$31.4 million to \$43.1 million for 2003 from \$11.7 million for 2002. Operating income increased by \$22.9 million because of the reclassification due to the 2004 Business Realignments. Operating margin improved by 3.8 percentage points to 6.5% for 2003 from 2.7% for 2002. The reclassification due to the 2004 Business Realignments increased operating margin by 3.0 percentage points. The remaining increase was due to lower losses from certain commercial businesses due to cost and expense reductions and higher margins from the Avionics Systems acquired business, partially offset by lower margins on commercial aviation products and microwave components due to lower sales volume and higher development expenses for cargo security products.

Interest expense increased by \$10.2 million to \$132.7 million for 2003 from \$122.5 million for 2002. The increase is attributable to the higher average outstanding debt during 2003 and lower savings from fixed-to-variable interest rate swap agreements of \$1.0 million.

Other income decreased by \$4.7 million to \$0.2 million in 2003 from \$4.9 million in 2002. The decrease was due to lower interest income earned because of lower average cash and cash equivalents balances, a loss of \$2.2 million recorded related to the sale of the commercial broadband test equipment assets of our Celerity business and an increase in losses on our investments accounted for using the equity method during 2003 compared to 2002.

The 2003 period includes a charge of \$11.2 million (\$7.2 million after-tax, or \$0.06 per diluted share) for the early retirement of \$180 million of our 8½% Senior Subordinated Notes due 2008. See "Liquidity

and Capital Resources." The 2002 period includes a charge of \$16.2 million (\$9.9 million after-tax, or \$0.09 per diluted share) for the early retirement of \$225 million of our 10 3/8% Senior Subordinated Notes due 2007.

Minority interest decreased by \$2.7 million to \$3.5 million for 2003 from \$6.2 million for 2002 because of lower net income for Aviation Communications and Surveillance Systems (ACSS) due to lower sales caused by weakness in the commercial aviation market during 2003 and higher product development expenses.

The income tax provision for 2003 is based on an effective income tax rate of 36.0%, compared with an effective income tax rate of 35.5% for 2002.

Basic earnings per share (EPS) before cumulative effect of a change in accounting principle increased by \$0.56 to \$2.89 for 2003 from \$2.33 for 2002. Diluted EPS before cumulative effect of a change in accounting principle increased by \$0.49 to \$2.62 for 2003 from \$2.13 for 2002. Net income for 2002 includes a charge, net of income taxes, of \$24.4 million (\$0.28 per basic share and \$0.23 per diluted share) for the cumulative effect of a change in accounting principle for goodwill impairment in connection with the adoption of SFAS No. 142. Including the effect of a change in accounting principle, basic EPS for 2002 was \$2.05 and diluted EPS for 2002 was \$1.90.

Diluted weighted-average common shares outstanding increased by 8.3% to 113.9 million for 2003 from 105.2 million for 2002. The increase principally reflects the additional shares outstanding from the sale of 14.0 million shares of L-3 Holdings common stock on June 28, 2002.

Secure Communications & ISR

Sales within our Secure Communications & ISR segment increased by \$386.1 million, or 36.7%, to \$1,439.4 million for 2003 from \$1,053.3 million for 2002. Organic sales growth was \$250.4 million, or 23.8%, due to continued strong demand and increased spending by the DoD and other U.S. Government agencies for our secure communications and ISR systems and products, which were partially offset by a decline in sales of \$5.5 million for the PrimeWave Communications business. The increase in sales from acquired businesses was \$135.7 million. The acquired businesses include IS and ComCept, which were acquired during 2002, and Aeromet and certain defense and aerospace assets of IPICOM, Inc., which were acquired during 2003.

Operating income increased by \$69.4 million to \$172.9 million for 2003 from \$103.5 million for 2002 because of higher sales and operating margin. Operating margin increased to 12.0% for 2003 from 9.8% for 2002 because of higher organic sale growth for defense systems and products, cost improvements and lower losses at our PrimeWave Communications business.

Training, Simulation & Government Services

Sales within our Training, Simulation & Government Services segment increased by \$200.7 million, or 24.8%, to \$1,009.3 million for 2003 from \$808.6 million for 2002. Organic sales growth was \$81.7 million, or 10.1%, driven by training and government services, including communications software support and engineering support. The increase in sales from the Telos, TMA, IMC and Ship Analytics acquired businesses, which were all acquired in 2002, was \$119.0 million.

Operating income increased by \$18.7 million to \$115.5 million for 2003 from \$96.8 million for 2002 because of higher sales, which were partially offset by lower operating margin. Operating margin declined by 0.6 percentage points to 11.4% for 2003 from 12.0% for 2002. The decrease was primarily due to higher sales from cost-reimbursable type and time and material type contracts, which generally are less profitable than fixed-priced type contracts. Margins increased by 0.3 percentage points from acquired businesses.

Aircraft Modernization, O&M and Products

Sales within our Aircraft Modernization, O&M and Products segment increased by \$342.1 million, or 50.5%, to \$1,019.6 million for 2003 from \$677.5 million for 2002. Organic sales growth was \$129.9 million, or 19.2%, primarily due to \$144.7 million for aircraft modernization and modification driven by DoD

demand. This increase was partially offset by volume declines of \$10.8 million for commercial aviation products caused by the continued weakness in the commercial aviation markets and volume declines of \$4.0 million primarily for display systems due to the timing of contractual shipments. The increase in sales from acquired businesses was \$212.2 million. The acquired businesses include IS, which was acquired in 2002, and Avionics Systems, MAS and Vertex, which were acquired in 2003.

Operating income increased by \$42.1 million to \$147.8 million for 2003 from \$105.7 million for 2002 because of higher aircraft modernization sales, which were partially offset by lower sales for commercial aviation products and lower operating margin. Operating margin declined by 1.1 percentage points to 14.5% for 2003 from 15.6% for 2002. Volume declines for commercial aviation products, which have higher margins than aircraft modification sales, decreased operating margin by 0.9 percentage points. Similarly, margins decreased by 0.4 percentage points primarily due to volume growth for aircraft modernization, which earns lower margins than commercial aviation products. These decreases were partially offset by the Avionics Systems and MAS acquired businesses, which increased margin by 0.2 percentage points.

Specialized Products

Sales within our Specialized Products segment increased by \$121.5 million, or 8.3%, to \$1,593.3 million for 2003 from \$1,471.8 million for 2002. Organic sales declined 16.7%, or \$245.2 million, or \$7.6 million, or 0.5%, excluding the decline for EDS. EDS sales declined by \$237.6 million (discussed below). Volume declined by \$46.4 million for fuzing and acoustic undersea warfare products and training devices because of certain contracts approaching their scheduled completion and the timing of sales on 2003 orders. Volume declined by \$22.3 million for telemetry products and microwave components due to the continued weakness in the commercial communications markets. These decreases were partially offset by an increase of \$46.6 million for naval power equipment due to higher shipments arising from the resolution of the production and quality control issues at the SPD Electrical Systems business and \$14.5 million primarily for FTSATs and guidance products due to strong demand from the DoD. The increase in sales from acquired businesses was \$366.7 million. The acquired businesses include Detection Systems, Ruggedized Command & Control, Electron Devices, Wolf Coach, Westwood and Wescam, all of which were acquired in 2002, and Klein, which was acquired in 2003.

Sales of EDS declined by \$237.6 million to \$101.5 million for 2003 compared with \$339.1 million for 2002, primarily because the initial installation of EDS at major U.S. airports by the TSA was completed by the end of 2002, which reduced the TSA's procurement requirements for new systems.

Operating income decreased by \$3.2 million to \$144.8 million for 2003 from \$148.0 million for 2002. Operating margin decreased by 1.0 percentage points to 9.1% for 2003 from 10.1% for 2002. Lower sales for EDS reduced operating margin by 0.6 percentage points. Volume declines for telemetry, fuzing and undersea warfare products lowered operating margin by 0.5 percentage points. Lower margins from acquired businesses reduced operating margin by 0.6 percentage points. The resolution of production quality problems for naval power equipment caused increased shipments and reduced rework costs, which increased operating margin by 0.5 percentage points. The settlement of a claim increased operating margin by 0.2 percentage points.

Liquidity and Capital Resources

Balance Sheet

Contracts in process increased by \$363.7 million to \$1,979.0 million at December 31, 2004 from \$1,615.3 million at December 31, 2003. The increase included (i) \$77.1 million related to business acquisitions, (ii) \$41.2 million of non-cash reclassifications to billed and unbilled receivables associated with certain billings in excess of costs and estimated profits and (iii) \$245.4 million principally from:

- increases of \$121.3 million in unbilled contract receivables due to sales exceeding deliveries and billings for secure network communications, ISR systems, communications products, training and government services, aircraft modernization and maintenance and the AMCOM contract;
- increases of \$84.8 million in billed receivables because of higher sales volume of secure network communications systems, training devices and aircraft modernization;

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- increases of \$24.3 million in inventoried contract costs primarily for aircraft modernization, secure network communications and ruggedized computers; and
 - increases of \$15.0 million in inventories at lower of cost or market due to increases for security products.

L-3's days receivable outstanding (DRO) was 71.8 at December 31, 2004, compared with 70.3 at December 31, 2003. We calculate our DRO by dividing (i) our aggregate end of period billed receivables and net unbilled contract receivables, by (ii) our sales for the last twelve-month period adjusted, on a pro forma basis, to include sales from business acquisitions that we completed as of the end of the period (which amounted to \$7,184.7 million), multiplied by 365.

L-3's billed receivables, net of uncollectible account allowances, increased by \$144.6 million to \$781.9 million at December 31, 2004, compared to \$637.3 million at December 31, 2003. The increase in billed receivables was primarily from L-3's U.S. Government contractor businesses and related to organic sales growth, as well as the 2004 business acquisitions. The uncollectible accounts allowance decreased by \$8.7 million to \$16.5 million at December 31, 2004, compared to \$25.2 million at December 31, 2003, because of write-offs of uncollectible accounts in 2004. The uncollectible accounts relate to L-3's commercial businesses. Our U.S. Government and allied foreign government customers, which generated 88.9% of L-3's sales for 2004, present very low uncollectible account risks due to their high credit quality and, therefore, generally require no uncollectible account allowances.

L-3's days inventory held (DIH) was 33.3 at December 31, 2004, compared with 36.3 at December 31, 2003. We calculate DIH by dividing (i) our aggregate end of period net inventoried contract costs and inventories at lower of cost or market, by (ii) our cost of sales for the last twelve-month period adjusted on a pro forma basis to include cost of sales from business acquisitions that we completed as of the end of the period (which amounted to \$6,200.1 million), multiplied by 365.

The increase in property, plant and equipment (PP&E) during 2004 was principally related to the Infrared Products, Cincinnati Electronics and Electronics Systems acquired businesses. The percentage of depreciation expense to average gross PP&E increased to 12.4% for 2004 from 11.9% for 2003. The increase was attributable

to the impact of business acquisitions completed during 2003. We did not change any of the depreciation methods or assets estimated useful lives that L-3 uses to calculate its depreciation expense.

Goodwill increased by \$402.4 million to \$4,054.8 million at December 31, 2004, from \$3,652.4 million at December 31, 2003. The increase was comprised of (i) \$366.5 million for business acquisitions completed during 2004, (ii) \$36.0 million for increases to purchase price payments for certain acquisitions completed prior to January 1, 2004, related to final closing date net assets of the acquired businesses and contingent purchase price adjustments or earnouts, which were resolved during the period, and (iii) a decrease of \$0.1 million primarily related to final estimates of fair value for acquired assets and liabilities assumed in connection with business acquisitions completed prior to January 1, 2004.

The increase in accounts payable was due to increased purchases from third-party vendors and subcontractors to support higher volumes for sales and related contracts-in-process, and the timing of payments for such purchases and to business acquisitions completed during 2004. The increase in accrued employment costs was due to the timing of payments of salaries and wages to employees and to business acquisitions completed during 2004. The increase in billings in excess of costs and estimated profits was primarily due to an increase in collections for milestone billings on contracts for training devices and services related to the completion of certain performance milestones and an increase for contracts in process with credit balances. The decrease in other current liabilities was primarily due to the payment of the remaining purchase price for the acquisition of certain aerospace and defense assets of IPICOM, Inc., and to cash payments for costs incurred in excess of contract values for certain contracts in a loss position. The increase in pension and postretirement benefit liabilities was primarily due to the increase in the minimum liability of \$23.1 million, discussed below. The increase in other liabilities was due to amounts from our acquired businesses.

Customer advances increased by \$49.3 million because collections exceeded liquidations, primarily related to cash payments received on contracts with foreign customers for ISR systems, acoustic undersea

warfare products and aircraft modernization and to the business acquisitions we completed during 2004. The timing of collections and liquidation of customer advances are prescribed by contract terms, and generally do not coincide because collections mostly occur upon the award of a contract and during the earlier periods of performance. Conversely, liquidations mostly occur during later periods of performance as products are delivered and other work items are completed. Additionally, customer advances do not affect or determine the timing of revenue recognition for a contract because customer advances are a contract financing method.

Pension Plans

L-3 maintains defined benefit pension plans covering employees at certain of its businesses. At December 31, 2004, our balance sheet included a pension benefits liability of \$273.8 million, an increase of \$40.4 million from \$233.4 million at December 31, 2003. The increase is due to pension expense recognized exceeding our pension funding and an increase in the minimum liability of \$23.1 million. At the end of 2004, L-3's projected benefit obligation, which includes accumulated benefits plus the incremental benefits attributable to projected future salary increases for covered employees, was \$1,131.6 million and exceeded the fair value of L-3's pension plan assets of \$734.6 million by \$397.0 million. At the end of 2003, L-3's projected benefit obligation was \$902.1 million and exceeded the fair value of L-3's pension plan assets of \$561.7 million by \$340.4 million. The increase in the unfunded status of our pension plans of \$56.6 million from \$340.4 million at the end of 2003 to \$397.0 million at the end of 2004 was principally due to the \$62.2 million actuarial loss that we experienced in 2004. Our 2004 actuarial loss was primarily due to the reduction in the discount rate by 25 basis points to 6.00% at the end of 2004 from 6.25% at the end of 2003, which increased the present value of L-3's projected benefit obligations at the end of 2004 by \$44.0 million. The difference between the unfunded status amount of \$397.0 million at the end of 2004 and the pension liability recorded on our balance sheet of \$273.8 million is attributable to the cumulative net unrecognized actuarial losses. In accordance with SFAS No. 87, *Employer's Accounting for Pensions*, the actuarial gains and losses that our pension plans experience are not recognized in pension expense in the year incurred, but rather deferred and amortized to pension expense in future periods over the estimated average remaining service periods of the covered employees. (See Note 16 to our consolidated financial statements.)

L-3 uses a November 30 measurement date to determine its end of year (December 31) pension benefit obligations and fair value of pension plan assets, and a fiscal year ending November 30 to determine its annual pension expense, including actual returns on plan assets. L-3's actual return on plan assets for 2004, based on the fiscal year ended November 30, 2004, was \$56.8 million, or 10.1%, on the fair value of plan assets at the beginning of the fiscal year.

Our pension expense for 2004 was \$74.8 million. We expect pension expense for 2005 to be between \$90 million and \$100 million. As discussed above, at the end of 2004 we reduced our discount rate from 6.25% to 6.00%, which will increase the interest cost component of pension expense for 2005. The higher interest cost in our estimated 2005 pension expense is expected to be substantially offset by the increase of \$172.8 million in our pension plan assets during 2004, which will increase our expected return on plan assets by approximately \$15.0 million, and decrease our estimated pension expense by the same amount. Our actual pension expense for 2005 will be based upon a number of factors, including the effect of any additional business acquisitions for which we assume liabilities for pension benefits, actual pension plan contributions and changes (if any) to our pension assumptions for 2005, including the discount rate, expected long-term return on plan assets and salary increases.

Our contributions for the full year 2004 were \$60.9 million. For 2005, we expect to contribute approximately \$70.0 million to our pension plans. A substantial portion of our pension plan contributions for L-3's businesses that are U.S. Government contractors are recoverable as allowable indirect contract costs at amounts generally equal to the annual pension contributions.

Our projected benefit obligation and annual pension expense are significantly affected by the discount rate assumption we use. For example, an additional reduction to the discount rate of 25 basis points would have increased our projected benefit obligation at December 31, 2004 by approximately \$43 million, and our estimated pension expense for 2005 by approximately \$7 million. Conversely, an increase

to the discount rate of 25 basis points would have decreased our projected benefit obligation at December 31, 2004 by approximately \$44 million, and our estimated pension expense for 2005 by approximately \$7 million.

Our shareholders' equity at December 31, 2004 reflects a non-cash charge of \$5.3 million (net of tax) to record the increase in accumulated other comprehensive loss due to additional minimum pension liability recognized for the year ended December 31, 2004 in accordance with SFAS No. 87. This non-cash charge had no effect on our compliance with the financial covenants of our debt agreements and did not impact our results of operations for 2004.

Statement of Cash Flows

Our cash position was \$653.4 million at December 31, 2004 and \$134.9 million at December 31, 2003 and 2002. The table below provides a summary of our cash flows for the periods indicated.

	Year Ended December 31,		
	2004	2003	2002
	(in millions)		
Net cash from operating activities	\$ 620.7	\$ 456.1	\$ 318.5
Net cash used in investing activities	(555.5)	(1,088.1)	(1,810.5)
Net cash from financing activities	453.3	632.0	1,265.9
Net increase (decrease) in cash	<u>\$ 518.5</u>	<u>\$ —</u>	<u>\$ (226.1)</u>

Operating Activities

We generated \$620.7 million of cash from operating activities during 2004, an increase of \$164.6 million from the \$456.1 million generated during 2003. Net income increased by \$104.2 million. Non-cash expenses increased by \$63.4 million to \$316.1 million in 2004 from \$252.7 million in 2003, primarily for depreciation and amortization, contributions to employee savings plans in L-3 Holdings common stock and deferred income taxes. Deferred income taxes increased by \$28.7 million to \$123.4 million for 2004 from \$94.7 million for 2003, primarily because of larger estimated tax deductions arising from our recent business acquisitions. During 2004, we used cash for changes in operating assets and liabilities of \$77.3 million, compared to \$74.2 million for 2003. The use of cash for contracts in process was primarily driven by increases in unbilled contract receivables and billed receivables arising from the organic sales growth for our businesses, as discussed above under "Liquidity and Capital Resources — Balance Sheet" and "Results of Operations". The use of cash for other current assets was primarily due to deposits paid to vendors during 2004. The use of cash for other assets was primarily due to investments in equipment for training devices and airport security systems leased to customers and capitalized software development costs for new products. The source of cash for accounts payable was due to increased purchases of materials, components and services required for the increase in sales during the year and the timing of payments for such purchases. The increase in the number of employees and the timing of payments for salaries and wages was a source of cash because costs and expenses for salaries and wages exceeded the cash payments. The source of cash for billings in excess of costs and estimated profits was due to cash collections for milestone billings on certain contracts primarily for training devices. The source of cash related to customer advances was due to receipt on certain foreign contracts awarded during the 2004 fourth quarter. The use of cash for other current liabilities was due to the payment upon settlement of a foreign currency hedging forward contract and cash payments for costs incurred in excess of estimated contract values for certain contracts in a loss position. The source of cash from the change in pension and postretirement benefit liabilities was due to expenses exceeding related cash contributions. Pension plan contributions in 2004 amounted to \$60.9 million, and exceeded our originally planned contributions for 2004 by more than \$5 million. We expect to contribute approximately \$70.0 million to our pension plans in 2005.

During 2003, we generated \$456.1 million of cash from operating activities, an increase of \$137.6 million from \$318.5 million generated during 2002. Net income increased by \$99.5 million. Non-cash expenses increased by \$14.9 million to \$252.7 million in 2003 from \$237.8 million in 2002, primarily for

depreciation and amortization, contributions to employee savings plans in L-3 Holdings common stock and deferred income taxes. During 2003, we used cash for changes in operating assets and liabilities of \$74.2 million, compared to \$97.4 million in 2002.

Our cash flows from operating activities during 2003 reflect increases in unbilled receivables and other assets. The use of cash for accounts payable was due to the timing of payments. The use of cash for other current liabilities was to fund contracts in a loss position for which estimated costs exceeded the estimated contract value, and was partially offset by cash collections for milestone billings in excess of costs incurred primarily for training devices. The timing of payments to employees for salaries and wages was a source of cash. Pension plan contributions in 2003 amounted to \$60.8 million. The source of cash from other liabilities was generated primarily from terminating interest rate swap agreements. During 2003, we terminated interest rate swap agreements, which is discussed in "Derivative Financial Instruments", and generated cash proceeds related to deferred gains on them of \$19.9 million, of which \$2.1 million was recorded in other current liabilities and \$17.8 million was recorded in other liabilities. For 2002, we also terminated interest rate swap agreements and generated cash proceeds related to net deferred gains on them of \$16.8 million.

Our cash flows from operating activities during 2002 reflect increases in billed and unbilled receivables, other current assets and other assets. The use of cash related to customer advances was due to liquidations on certain foreign contracts. The use of cash for other current liabilities was to fund contracts in a loss position for which estimated costs exceed the estimated contract value, and was partially offset by an increase in accrued warranty costs primarily for explosive detection systems delivered in 2002. The timing of payments to employees for salaries and wages, as well as the timing of interest payments, was a source of cash. The source of cash in other liabilities was primarily due to deferred gains on the termination of our swap agreements. Pension plan contributions in 2002 amounted to \$47.4 million.

Our cash from operating activities includes interest payments on debt of \$138.2 million for 2004, \$119.9 million for 2003 and \$109.3 million for 2002. Our interest expense also includes amortization of deferred debt issue costs and deferred gains on terminated interest rate swap agreements, which are non-cash items.

Our cash from operating activities includes income tax payments, net of refunds, of \$37.0 million for 2004, \$17.3 million for 2003 and \$2.1 million for 2002. Our income tax payments were substantially less than our provisions for income taxes reported on our statements of operations primarily because of income tax deductions from our acquired businesses structured as asset purchases and income tax deductions for compensation expense arising from the exercise of employee stock options. The income tax deductions from the exercise of employee stock options are accounted for as a reduction to current income taxes payable and an increase to shareholders' equity (see Note 13 to our consolidated financial statements). L-3 receives substantial income tax deductions from its business acquisitions that are structured as asset purchases for income tax purposes. The effect of these

income tax deductions is that our cash payments for income taxes are less than our provision for income taxes reported on the statement of operations. This difference is presented in the deferred income tax provision on our statement of cash flows. The deferred income tax provision primarily results from deducting amortization of tax intangibles, including goodwill, from the business acquisitions structured as asset purchases on L-3's income tax returns over 15 years, in accordance with income tax rules and regulations, while no goodwill amortization is recorded for financial reporting purposes, in accordance with SFAS No. 142. We expect that the business acquisitions L-3 has completed through December 31, 2004 will continue to generate substantial annual deferred tax benefits through 2019. While these income tax deductions are reported as changes to deferred income tax liabilities and assets, they are not differences that are scheduled to reverse in future periods from normal operations. Rather, they will only reverse if L-3 sells its acquired businesses or incurs a goodwill impairment loss for them, because in either case, L-3's financial reporting amounts for goodwill would be greater than the income tax basis for goodwill. L-3 also receives significant income tax deductions and deferred tax benefits from its acquired businesses structured as asset purchases for income tax purposes from accelerated depreciation of plant and equipment.

Investing Activities

During 2004, we used \$473.4 million of cash for business acquisitions. We paid \$424.0 million in connection with our 2004 business acquisitions discussed above. We also paid \$11.5 million for the final contractual purchase price adjustment for the Vertex acquired business. We also paid \$37.9 million primarily for the remaining contractual purchase price for the IPICOM, Inc. assets, and for earnouts.

During 2003, we invested \$1,014.4 million to acquire businesses, primarily for Vertex, Avionics Systems and MAS. During 2002, we invested \$1,742.1 million to acquire businesses, primarily for Integrated Systems and Detection Systems. Cash used for business acquisitions included earnout payments on certain business acquisitions of \$11.4 million for 2004, \$8.5 million for 2003, and \$1.8 million for 2002.

On February 3, 2005, we acquired substantially all of the Marine Controls division of CAE and we will acquire the remaining business operations following the receipt of required approvals. On February 25, 2005, we acquired the Propulsion Systems business unit of General Dynamics. On February 28, 2005, we acquired the Electron Dynamic Devices business of the Boeing Company. The aggregate purchase price paid in cash for these business acquisitions was \$471.8 million. We financed these acquisitions using cash on hand.

Financing Activities

Debt

Senior Credit Facilities. At December 31, 2004, the senior credit facilities were comprised of a \$500.0 million five-year revolving credit facility maturing on May 15, 2006 and a \$250.0 million 364-day revolving facility. The 364-day revolving credit facility expired on February 22, 2005.

At December 31, 2004, available borrowings under our senior credit facilities were \$677.5 million, after reductions for outstanding letters of credit of \$72.5 million. There were no outstanding borrowings under our senior credit facilities at December 31, 2004.

On March 9, 2005, we entered into a new five-year senior revolving credit facility maturing on March 9, 2010 and allowing for total aggregate borrowings of up to \$1.0 billion. At March 9, 2005, available borrowings under our new senior credit facility were approximately \$906 million, after reductions for outstanding letters of credit of approximately \$94 million. At the time we entered into this facility, our existing senior credit facility was terminated.

Certain lenders and the administrative agent under the existing senior credit facility and the new senior credit facility have provided us with various financial advisory, investment banking, commercial banking and other services from time to time, for which they have received customary fees.

Redemptions and Related Conversion of Convertible Debt into Common Stock. On October 5, 2004, L-3 Holdings announced a full redemption of all the \$420.0 million of its 4.00% Senior Subordinated Convertible Contingent Debt Securities (CODES) due 2011, which expired on Thursday, October 21, 2004. On October 21, 2004, holders of \$419.8 million of the principal amount of CODES exercised their conversion rights and converted such CODES into 7,800,797 shares of L-3 Holdings common stock. The remaining \$0.2 million of the CODES were redeemed for cash on October 25, 2004, at a redemption price of 102.0% of the principal amount, plus accrued and unpaid interest (including contingent interest) to October 25, 2004. On December 22, 2003, L-3 Holdings announced a full redemption of \$300.0 million of its 5.25% Convertible Senior Subordinated Notes due 2009 (Convertible Notes), which expired on January 9, 2004. Holders of \$299.8 million of the Convertible Notes exercised their conversion rights and converted such notes into 7,357,327 shares of L-3 Holdings' common stock. The remaining \$0.2 million of Convertible Notes were redeemed for cash.

Redemptions of Senior Subordinated Notes. On November 12, 2004, L-3 Communications initiated a full redemption of all of the outstanding \$200.0 million aggregate principal amount of 8% Senior Subordinated Notes due 2008. Such notes were redeemed by us at a redemption price of 102.667% of the principal amount thereof, plus accrued and unpaid interest. We completed this redemption on December

13, 2004. In connection with the early redemption of the \$200.0 million of 8% Senior Subordinated Notes, we recorded a pre-tax debt retirement charge of \$5.0 million.

On May 21, 2003, L-3 Communications initiated a full redemption of all the outstanding \$180.0 million aggregate principal amount of 8½% Senior Subordinated Notes due 2008 (May 1998 Notes). On June 20, 2003, we purchased and paid cash for all the outstanding May 1998 notes, including accrued interest. During 2003, we recorded a pre-tax charge of \$11.2 million.

On June 6, 2002, L-3 Communications commenced a tender offer to purchase any and all of its \$225.0 million aggregate principal amount of 10 3/8% Senior Subordinated Notes due 2007. The tender offer expired on July 3, 2002. On June 25, 2002, L-3 Communications sent a notice of redemption for all of its 10 3/8% Senior Subordinated Notes due 2007 that remained outstanding after the expiration of the tender offer. Upon sending the

notice, the remaining notes became due and payable at the redemption price as of July 25, 2002. During 2002, we recorded a pre-tax charge of \$16.2 million.

Debt Issuances. The table below presents a summary of our issuances of debt obligations for 2002, 2003 and 2004. Our outstanding debt obligations, all of which are senior subordinated debt, are rated as of January 2005 as BB+ by Standard & Poor's, BB by Fitch Ratings and Ba3 by Moody's. For additional details about the terms of our debt, see Note 8 to our consolidated financial statements.

Description of Debt Issuances	Issue Date	Principal Amount	Discount	Commissions and Other Offering Expenses	Net Proceeds	Semi-Annual Interest Payment Dates
<i>(in millions)</i>						
<u>L-3 Communications</u>						
5 7/8% Senior Subordinated Notes due January 15, 2015	November 12, 2004	\$ 650.0	\$ —	\$ 11.0	\$ 639.0 ⁽¹⁾	January 15 and July 15
6 1/8% Senior Subordinated Notes due January 15, 2014	December 22, 2003	400.0	7.4	2.6	390.0 ⁽²⁾	January 15 and July 15
6 1/8% Senior Subordinated Notes due July 15, 2013	May 21, 2003	400.0	1.8	7.2	391.0 ⁽³⁾	January 15 and July 15
7 5/8% Senior Subordinated Notes due June 15, 2012	June 28, 2002	750.0	—	18.5	731.5 ⁽⁴⁾	June 15 and December 15

(1) The net proceeds from this offering were used to redeem the 8% Senior Subordinated Notes due 2008 and to increase cash and cash equivalents.

(2) The net proceeds from this offering were used to repay \$275.0 million of borrowings outstanding under our senior credit facilities and to increase cash and cash equivalents.

(3) The net proceeds from this offering were used to redeem the 8½% Senior Subordinated Notes due 2008 and to increase cash and cash equivalents.

(4) The net proceeds from this offering and the concurrent sale of 14.0 million shares of our common stock, discussed below under "Equity," were used to (a) repay \$500.0 million borrowed on March 8, 2002, under our senior subordinated bridge loan facility, (b) repay the indebtedness outstanding under our senior credit facilities, (c) repurchase and redeem the 10 3/8% Senior Subordinated Notes due 2007 (discussed above) and (d) increase cash and cash equivalents.

Debt Covenants and Other Provisions. The new senior credit facility, which was entered into on March 9, 2005, and senior subordinated notes agreements contain financial covenants and other restrictive covenants. See Note 8 to our consolidated financial statements for a description of our debt and related financial covenants under our new senior credit facility. We are in compliance with those covenants in all material respects. The new senior credit facility and the senior subordinated notes indentures limit the ability of L-3 Communications to pay dividends to and make investments in L-3 Holdings, subject to exceptions, as described in Note 8 to our consolidated financial statements.

The new senior credit facility contains cross default provisions that are triggered when a payment default occurs or certain other defaults occur that would allow the acceleration of indebtedness, guarantee obligations or certain other agreements of L-3 Communications or its subsidiaries in an aggregate amount of at least \$40.0 million and those defaults (other than payment defaults and defaults that have resulted in acceleration) have not been cured after 10 days. The senior subordinated notes indentures contain cross acceleration provisions that are triggered when holders of the indebtedness of L-3 Holdings, L-3

Communications or their restricted subsidiaries (or the payment of which is guaranteed by such entities) accelerate at least \$10.0 million in aggregate principal amount of those obligations. The new senior credit facility and the senior subordinated notes indentures also contain other customary events of default.

The borrowings under the new senior credit facility are guaranteed by L-3 Holdings and by substantially all of the material wholly-owned domestic subsidiaries of L-3 Communications on a senior basis. The payments of principal and premium, if any, and interest on the senior subordinated notes are unconditionally guaranteed, on an unsecured senior subordinated basis, jointly and severally, by substantially all of L-3 Communications' restricted subsidiaries other than its foreign subsidiaries. The guarantees of the senior subordinated notes rank pari passu with one another and are junior to the guarantees of the new senior credit facility.

In the event that the long-term debt rating of L-3 Communications is reduced below BBB-, or the equivalent, by two of the three rating agencies, Standard & Poor's Rating Services, Moody's Investors Service, Inc., or Fitch Ratings, L-3 Holdings will be required, within 45 business days, to pledge 100% of the capital stock of L-3 Communications, and L-3 Communications and each subsidiary guarantor will be required to pledge 100% of the capital stock of each of their material wholly-owned domestic subsidiaries and 65% of their material wholly-owned foreign subsidiaries, in favor of the lenders under the new senior credit facility.

Equity

In January of 2004, L-3 Holdings announced that its Board of Directors had declared L-3's first quarterly cash dividend of \$0.10 per share, payable on March 15, 2004. L-3 Holdings' Board of Directors declared three additional quarterly dividends of \$0.10 per share, all of which were paid in 2004. L-3 Holdings paid cash dividends of \$43.4 million in aggregate to shareholders in 2004. The 2004 cash dividends were paid on March 15, June 15, September 15 and December 15.

On February 10, 2005, we announced that our Board of Directors had increased L-3's regular quarterly cash dividend by 25% to \$0.125 per share, payable on March 15, 2005, to shareholders of record at the close of business on February 22, 2005. On February 22, 2005, L-3 Holdings had 116,333,428 shares of common stock outstanding.

On June 28, 2002, L-3 Holdings sold 14.0 million shares of its common stock in a public offering for \$56.60 per share. Upon closing, we received net proceeds of \$766.8 million after deducting underwriting discounts and commissions and other offering expenses. The net proceeds from this sale and the concurrent sale of senior subordinated notes by L-3 Communications were used to (i) repay \$500.0 million borrowed on March 8, 2002, under our senior subordinated bridge loan facility, (ii) repay the indebtedness outstanding under our senior credit

facilities, (iii) repurchase and redeem the 10 3/8% Senior Subordinated Notes due 2007 discussed above and (iv) increase cash and cash equivalents.

On April 23, 2002, we announced that our Board of Directors had authorized a two-for-one stock split on all shares of L-3 Holdings common stock. The stock split entitled all shareholders of record at the close of business on May 6, 2002 to receive one additional share of L-3 Holdings common stock for every share held on that date. The additional shares were distributed to shareholders in the form of a stock dividend on May 20, 2002. Upon completion of the stock split, L-3 Holdings had approximately 80 million shares of common stock outstanding.

Anticipated Sources of Cash Flow

Based upon our current level of operations, we believe that our cash from operating activities, together with available borrowings under the new senior credit facilities, will be adequate to meet our anticipated requirements for working capital, capital expenditures, commitments, research and development expenditures, contingent purchase prices, program and other discretionary investments, L-3 Holdings' dividends and interest payments for the foreseeable future. There can be no assurance, however, that our business will continue to generate cash flows at current levels, or that currently anticipated improvements will be achieved. If we are unable to generate sufficient cash flow from operations to service our debt, we may be required to sell assets, reduce capital expenditures, refinance

all or a portion of our existing debt or obtain additional financing. Our ability to make scheduled principal payments or to pay interest on or to refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the defense industry and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control. There can be no assurance that sufficient funds will be available to enable us to service our indebtedness, to make necessary capital expenditures and to make discretionary investments.

Contractual Obligations

The table below presents our contractual obligations at December 31, 2004.

Contractual Obligations:	Total	Year(s) Ending December 31,			
		2005	2006 – 2007	2008 – 2009	2010 and thereafter
			(in millions)		
Long-term debt ⁽¹⁾	\$ 2,200.0	\$ —	\$ —	\$ —	\$ 2,200.0
Non-cancelable operating leases	579.5	115.7	142.1	104.1	217.6
Notes payable and capital lease obligations	13.9	0.7	0.7	0.5	12.0
Purchase obligations ⁽²⁾	846.9	696.6	99.0	34.9	16.4
Other long-term liabilities ⁽³⁾	147.7	83.0 ⁽⁴⁾	42.7	1.8	20.2
Contractual commitments for earnout payments on business acquisitions ⁽⁵⁾	37.4	1.4	36.0	—	—
Total	<u>\$ 3,825.4</u>	<u>\$ 897.4</u>	<u>\$ 320.5</u>	<u>\$ 141.3</u>	<u>\$ 2,466.2</u>

- (1) Long-term debt includes scheduled principal payments only.
- (2) Represents open purchase orders at December 31, 2004 for amounts expected to be paid for goods or services that are legally binding on us.
- (3) Other long-term liabilities primarily consists of workers compensation, deferred compensation and litigation settlement accruals for the years ending December 31, 2006 and thereafter and also includes pension and postretirement benefit plan contributions that we expect to pay in 2005.
- (4) Our pension and postretirement benefit plan funding policy is generally to contribute in accordance with cost accounting standards that affect government contractors, subject to the Internal Revenue Code and regulations thereon. For 2005, we expect to contribute approximately \$70.0 million to our pension plans and \$13.0 million to our postretirement benefit plans. Due to the current uncertainty of the amounts used to compute our expected pension and postretirement benefit plan funding, we believe it is not practicable to reasonably estimate such future funding for periods in excess of 1 year.
- (5) Represents additional purchase payments for business acquisitions that are contingent upon the post-aquisition financial performance of the acquired business.

Off Balance Sheet Arrangements

On December 31, 2002, we entered into two real estate lease agreements, as lessee, with a third-party lessor, which expire on December 31, 2005 and are accounted for as operating leases. On or before the lease expiration date, we can exercise options under the lease agreements to either renew the leases, purchase both properties for \$28.0 million, or sell both properties on behalf of the lessor (the "Sale Option"). If we elect the Sale Option, we must pay the lessor a residual guarantee amount of \$22.7 million for both properties, on or before the lease expiration date, and at the time both properties are sold, we must pay the lessor a supplemental rent equal to the gross sales proceeds in excess of the residual guarantee amount not to exceed \$5.3 million.

We have a contract to provide and operate for the U.S. Air Force (USAF) a full-service training facility, including simulator systems adjacent to a USAF base in Oklahoma. We acted as the construction agent on behalf of the third-party owner-lessors for procurement and construction for the simulator systems, which were completed and delivered in August 2002. On December 31, 2002, we, as lessee, entered into an operating lease agreement for a term of 15 years for one of the simulator systems with the owner-lessor. At the end of the lease term, we may elect to purchase the simulator system at fair market value, which can be no less than \$2.6 million and no greater than \$6.4 million. If we do not elect to purchase the simulator system, then on the date of expiration, we shall pay to the lessor, as additional rent, \$2.6 million and return the simulator system to the lessor. The aggregate non-cancelable rental payments

under this operating lease are \$32.5 million, including the additional rent of \$2.6 million. On February 27, 2003, we, as lessee, entered into an operating lease agreement for a term of 15 years for the remaining simulation systems with the owner-lessor. At the end of the lease term, we may elect to purchase the simulator systems at fair market value, which can be no less than \$4.1 million and no greater than \$14.5 million. If we do not elect to

purchase the simulator systems, then on the date of expiration, we shall return the simulator systems to the lessor. The aggregate non-cancelable rental payments under this operating lease are \$53.3 million.

Derivative Financial Instruments

Included in our derivative financial instruments are foreign currency forward contracts, foreign currency put options and interest rate swap agreements. All of our derivative financial instruments that are sensitive to market risk are entered into for purposes other than trading.

Interest Rate Risk. Our financial instruments that are sensitive to changes in interest rates include borrowings under the senior credit facilities and interest rate swap agreements, all of which are denominated in U.S. dollars. At December 31, 2004, there were no outstanding borrowings under our senior credit facilities. The interest rates on the senior subordinated notes are fixed-rate and are not affected by changes in interest rates. Depending on interest rate levels, we may enter into interest rate swap agreements to convert certain of our fixed interest rate debt obligations to variable interest rates, or terminate any existing interest rate swap agreements. The variable interest rate paid by us is equal to (i) the variable rate basis, plus (ii) the variable rate spread. See Note 8 to the audited consolidated financial statements for a detailed table of our interest rate swap agreement that is currently outstanding, and a table that presents the activity for our terminated interest rate swap agreements through December 31, 2004.

Outstanding interest rate swap agreements reduced interest expense by \$4.5 million during 2004, compared to \$5.5 million during 2003. Interest expense was reduced by \$4.2 million for 2004, compared to \$3.1 million for 2003 for amortization of deferred gains on terminated interest rate swap agreements. For every basis point (0.01%) that the six-month USD LIBOR interest rate is greater than 4.58%, we will incur an additional \$10,000 of interest expense above the fixed interest rate on \$100.0 million of senior subordinated notes calculated on a per annum basis until maturity. Conversely, for every basis point that the six-month USD Libor interest rate is less than 4.58%, we will recognize interest income of \$10,000 on \$100.0 million of senior subordinated notes calculated on a per annum basis until maturity.

When we enter into interest rate swap agreements, we attempt to manage exposure to counterparty credit risk by only entering into agreements with major financial institutions that are expected to be able to fully perform under the terms of such agreements. Cash payments between us and the counterparties are made in accordance with the terms of the interest rate swap agreements. Such payments are recorded as adjustments to interest expense. Additional data on our debt obligations, our applicable borrowing spreads included in the interest rates we pay on borrowings under the senior credit facilities and interest rate swap agreements are provided in Notes 8 and 9 to our audited consolidated financial statements.

Foreign Currency Exchange Risk. We conduct some of our operations outside the U.S. in functional currencies other than the U.S. dollar. Additionally, some of our U.S. and foreign operations have contracts with customers which are denominated in currencies other than the functional currencies of those operations. To mitigate the risk associated with certain of these contracts denominated in foreign currency we have entered into foreign currency forward contracts and put options. At December 31, 2004, the notional value of foreign currency forward contracts was \$126.3 million and the fair value of these contracts was \$2.1 million, which represented a liability. There were no foreign currency put options outstanding at December 31, 2004. We account for these contracts as cash flow hedges.

Equity Price Risk. Our equity investments in common stocks, joint ventures and limited liability corporations are subject to equity price risk, including equity risk. The fair values of our investments are based on quoted market prices for investments which are readily marketable securities, and estimated fair value for nonreadily marketable securities, which is generally equal to historical cost unless such investment has experienced an other-than-temporary impairment. Both the carrying values and estimated fair values of such investments amounted to \$30.3 million at the end of 2004.

Backlog and Orders

We define funded backlog as the value of funded orders received from customers, less the amount of sales recognized on those funded orders. We define funded orders as the value of contract awards received from the U.S. Government, for which the U.S. Government has appropriated funds, plus the value of contract awards and orders received from customers other than the U.S. Government. The table below presents our funded backlog, percent of funded backlog at December 31, 2004 expected to be recorded as sales in 2005 and funded orders for each of our reportable segments.

Reportable Segment:	Funded Backlog at December 31,		Percentage of December 31, 2004 Funded Backlog Expected to be Recorded as Sales in 2005	Funded Orders	
	2004	2003		2004	2003
Secure Communications & ISR	\$ 1,351.9	\$ 1,075.3	85.0%	\$ 1,871.3	\$ 1,544.1
Training, Simulation & Government Services	662.4	591.3	80.4	1,296.7	1,176.3
Aircraft Modernization, O&M and Products	1,231.5	993.1	77.2	2,487.2	1,101.1
Specialized Products	1,512.1	1,233.6	69.1	1,908.5	1,655.9
Consolidated	\$ 4,757.9	\$ 3,893.3	77.3%	\$ 7,563.7	\$ 5,477.4

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

Research and Development

The following table presents L-3's (i) company-sponsored (independent) research and development costs and (ii) customer-funded research and development costs, which are incurred on revenue arrangements to perform research and development services for customers. See Note 2 to the consolidated financial statements for a discussion of L-3's accounting policies for research and development costs.

Company-Sponsored Research and Development Costs:	Year Ended December 31,		
	2004	2003	2002

U.S. Government Contractor Businesses	\$	149.4	\$	129.4	\$	124.2
Commercial Businesses		71.2		59.2		35.7
Total	\$	220.6	\$	188.6	\$	159.9
Customer-Funded Research and Development Costs	\$	689.2	\$	573.1	\$	480.9

Contingencies

We are engaged in providing products and services under contracts with the U.S. Government and, to a lesser degree, under foreign government contracts, some of which are funded by the U.S. Government. All such contracts are subject to extensive legal and regulatory requirements, and, periodically, agencies of the U.S. Government investigate whether such contracts were and are being conducted in accordance with these requirements. Under U.S. Government procurement regulations, an indictment by a federal grand jury could result in the suspension for a period of time from eligibility for awards of new government contracts. A conviction could result in debarment from contracting with the federal government for a specified term. Additionally, in the event that U.S. Government expenditures for products and services of the type we manufacture and provide are reduced and not offset by greater commercial sales or other new programs or products or business acquisitions, there may be a reduction in the volume of contracts or subcontracts awarded to us. We are currently cooperating with the U.S. Government on several investigations, none of which we anticipate will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

We continually assess our obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost that we will incur to comply with these laws, based upon available internal and external assessments, with respect to those environmental loss contingencies of which we are aware, we believe that even without considering potential insurance recoveries, if any, there are no environmental loss contingencies that, individually or in the aggregate, would be material to our consolidated financial position, results of operations or cash flows. Also, we have been periodically subject to litigation, claims or assessments and various contingent liabilities incidental to our business. We accrue for these contingencies when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated.

In connection with the IS acquisition we assumed responsibility for implementing certain corrective actions required under federal law to remediate the Greenville, Texas site location, and to pay a portion of those remediation costs. The hazardous substances requiring remediation have been substantially characterized, and the remediation system has been partially implemented. We have estimated that our share of the remediation cost will not exceed \$2.5 million, and will be incurred over a period of 25 years. We have established adequate reserves for these costs.

With respect to those investigative actions, items of litigation, claims or assessments of which we are aware, we are of the opinion that the likelihood of loss is less than probable that, after taking into account certain provisions for these matters, the ultimate resolution of any such investigative actions, items of litigation, claims or assessments will have a material adverse effect on our consolidated financial position, results of operations or cash flows. For a description of our legal proceedings, see Item 3 — Legal Proceedings.

Recently Issued Accounting Standards

In December of 2004, the FASB revised its FASB Statement No. 123, *Accounting for Stock Based Compensation* (SFAS 123) and renamed it FASB Statement No. 123, *Share-Based Payment* (SFAS 123R). SFAS 123R requires that compensation expense relating to share-based payment transactions be recognized in financial statements at estimated fair value. The scope of SFAS 123R includes a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. This standard replaces SFAS 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. We are required to adopt the provisions of SFAS 123R for the interim period ending September 30, 2005. We are currently assessing the provisions of SFAS 123R. We previously elected not to adopt the fair value based method of accounting for stock-based employee compensation as permitted by SFAS 123. The adoption of SFAS 123R will result in the recording of non-cash compensation expenses, which we do not currently recognize in our financial statements. In accordance with SFAS 123, we disclose pro forma net income and earnings per share adjusted for non-cash compensation expense arising from the estimated fair value of share-based payment transactions. For a further discussion of our accounting for stock-based employee compensation and disclosure of our pro forma historical net income and earnings per share, see Note 2 to the audited consolidated financial statements.

The U.S. enacted the American Jobs Creation Act of 2004 (the American Jobs Creation Act) in October 2004, which contains many provisions affecting corporate taxation. The American Jobs Creation Act phases out the extraterritorial income (ETI) exclusion benefit for export sales and phases in a new tax deduction for income from qualified domestic production activities (QPA) over a transition period beginning in 2005. In December 2004, the FASB issued FASB Staff Position 109-1 (FSP 109-1), which provides guidance that the QPA deduction should be treated as a special income tax deduction as described in SFAS 109. As such, QPA has no impact on our deferred tax assets or liabilities existing as of the enactment date. Rather, the QPA deduction will be reported in the period that the deductions are claimed on our income tax returns. While we have not completed our evaluation of the net impact of the American Jobs Creation Act, we believe that the benefit from the phase-in of the QPA deduction will be substantially equivalent to the lost benefit from the phase-out of the ETI exclusion in 2005. We do not expect that the other provisions included in the American Jobs Creation Act will have a significant impact on our financial position, results of operations or cash flows.

On September 30, 2004, the EITF reached a consensus on issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*. See "Results of Operations" above for a description of EITF No. 04-8 and its impact on our results of operations.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). This Act introduces a federal subsidy to employers who sponsor retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. On January 21, 2005, the Centers for Medicare and Medical Services (CMS) released final regulations implementing

the Act. We have not determined the possible effect of the final regulations on our accumulated postretirement benefit obligation. In May of 2004, the FASB issued FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy provided by the Act. In accordance with FSP 106-2 we have accounted for the effect of the Act on a preliminary basis and disclosed the effect in Note 16 of our audited consolidated financial statements.

Inflation

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

Forward-Looking Statements

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

Statements that are predictive in nature, that depend upon or refer to events or conditions or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" and similar expressions are forward-looking statements. Although we believe that these statements are based upon reasonable assumptions, including projections of orders, sales, operating margins, earnings, cash flow, research and development costs, working capital, capital expenditures and other projections, they are subject to several risks and uncertainties, and therefore, we can give no assurance that these statements will be achieved. Such statements will also be influenced by factors such as:

- our dependence on the defense industry and the business risks peculiar to that industry, including changing priorities or reductions in the U.S. Government defense budget;
- our reliance on contracts with a limited number of agencies of, or contractors to, the U.S. Government and the possibility of termination of government contracts by unilateral government action or for failure to perform;
- the extensive legal and regulatory requirements surrounding our contracts with the U.S. Government and the results of any investigation of our contracts undertaken by the U.S. Government.
- our ability to obtain future government contracts on a timely basis;
- the availability of government funding and changes in customer requirements for our products and services;
- our significant amount of debt and the restrictions contained in our debt agreements;
- our ability to continue to retain and train our existing employees and to recruit and hire new qualified and skilled employees;
- our collective bargaining agreements and our ability to favorably resolve labor disputes should they arise;
- the business and economic conditions in the markets in which we operate, including those for the commercial aviation and communications markets;

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- economic conditions, competitive environment, international business and political conditions and timing of international awards and contracts;
 - our extensive use of fixed-price type contracts as compared to cost-reimbursable type and time-and-material type contracts;
 - our ability to identify future acquisition candidates or to integrate acquired operations;
 - the rapid change of technology and high level of competition in the communication equipment industry;
 - our introduction of new products into commercial markets or our investments in commercial products or companies;
 - pension, environmental or legal matters or proceedings, including the Kalitta Air and OSI Systems matters and various other market, competition and industry factors, many of which are beyond our control; and
 - the fair values of our assets, including identifiable intangible assets and the estimated fair value of the goodwill balances for our reporting units, which can be impaired or reduced by the other factors discussed above.

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 or circumstances or changes in expectations or the occurrence of anticipated events.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Data regarding quantitative and qualitative disclosures related to our market risk sensitive financial instruments are presented in (i) "Management's Discussion and Analysis of Results of Operations and Financial Condition — Liquidity and Capital Resources — Derivative Financial Instruments" included herein under Item 7 and (ii) Note 9 to the consolidated financial statements.

Item 8. Financial Statements and Supplementary Data

See Financial Statements beginning on page F-1.

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

Not applicable.

Item 9A. Controls and Procedures

Conclusions Regarding Effectiveness of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chairman and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. Any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. Our management, with the participation of our Chairman and Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2004. Based upon that evaluation and subject to the foregoing, our Chairman and Chief Executive Officer and our Chief Financial Officer concluded that the design and operation of our disclosure controls and procedures provided reasonable assurance that the disclosure controls and procedures are effective to accomplish their objectives.

In addition, there was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

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

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

Management assessed the effectiveness of L-3 Holdings' and L-3 Communications' internal control over financial reporting as of December 31, 2004. In making these assessments, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessments and those criteria, management determined that L-3 Holdings and L-3 Communications maintained effective internal control over financial reporting as of December 31, 2004.

Our independent registered public accounting firm has audited and issued their report on management's assessments of the effectiveness of our internal control over financial reporting as of December 31, 2004. See page F-2 to our consolidated financial statements for their report.

Item 9B: Other Information

On March 11, 2005, our Board of Directors elected Michael T. Strianese as chief financial officer, effective immediately. On December 27, 2004, we announced that Mr. LaPenta had decided to retire as L-3's President and Chief Financial Officer effective April 1, 2005, and that he also would be leaving the L-3 Board of Directors at that time.

As previously reported on Form 8-K dated March 7, 2005, the Compensation Committee of our Board of Directors approved the base salaries for the fiscal year ended December 31, 2005 for the named executive officers of the Company as set forth below.

<u>Name and Position</u>	<u>2005 Base Salary</u>
Frank C. Lanza	
Chairman and Chief Executive Officer	\$ 975,000
Michael T. Strianese	\$ 480,000
Senior Vice President and Chief Financial Officer	
Christopher C. Cambria	\$ 430,000
Senior Vice President, Secretary and General Counsel	
Charles J. Schafer	\$ 380,000
Senior Vice President, Business Operations and President of the Products Group	

PART III

Item 10. Directors, Executive Officers and Key Employees of the Registrant

The following table provides information concerning the directors and executive officers of the Registrants as of March 11, 2005.

Name	Age	Position
Frank C. Lanza	73	Chairman, Chief Executive Officer and Director
Robert V. LaPenta	59	President and Director ⁽¹⁾
Michael T. Strianese	48	Senior Vice President and Chief Financial Officer
Christopher C. Cambria	46	Senior Vice President, Secretary and General Counsel
Charles J. Schafer	57	Senior Vice President and President and Chief Operating Officer of Products Group
James W. Dunn	60	Senior Vice President and President and Chief Operating Officer of Sensors and Simulation Group
Jimmie V. Adams	68	Vice President — Washington D.C. Operations
David T. Butler III	48	Vice President — Mergers, Acquisitions and Corporate Strategy
Ralph G. D'Ambrosio	37	Vice President — Finance
Kenneth R. Goldstein	59	Vice President — Taxes
Robert W. RisCassi	69	Vice President
Stephen M. Souza	52	Vice President — Treasurer
Dr. Jill J. Wittels	55	Vice President — Business Development
Claude R. Canizares ⁽²⁾	59	Director
Thomas A. Corcoran ⁽²⁾⁽³⁾	60	Director
Robert B. Millard ⁽²⁾	54	Director
John M. Shalikashvili ⁽³⁾⁽⁴⁾	68	Director
Arthur L. Simon ⁽²⁾⁽⁴⁾	72	Director
Alan H. Washkowitz ⁽³⁾⁽⁴⁾	64	Director
John P. White	67	Director

(1) Robert V. LaPenta will retire as President and Director of L-3 effective April 1, 2005 and will not stand for re-election for director at our 2005 stockholders meeting. Effective March 11, 2005, Michael T. Strianese assumed the responsibilities of Chief Financial Officer.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) Member of the Nominating/Corporate Governance Committee.

All Executive Officers serve at the discretion of the Board of Directors.

The remaining information called for by Item 10 is incorporated herein by reference to the definitive proxy statement relating to the Annual Meeting of Shareholders of L-3 Holdings, to be held on April 26, 2005. L-3 Holdings will file such definitive proxy statement with the Securities and Exchange Commission pursuant to regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

Item 11. Executive Compensation

The information called for by Item 11 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

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

The information called for by Item 12 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

Item 13. Certain Relationships and Related Transactions

The information called for by Item 13 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

Item 14. Principal Accounting Fees and Services

This information called for by Item 14 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

Item 15. Exhibits, Financial Statement Schedules

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

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(a)(2) Financial Statement Schedules

Not applicable

(b) Exhibits

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
3.1	Certificate of Incorporation of L-3 Communications Holdings, Inc. (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002).
3.2	By-Laws of L-3 Communications Holdings, Inc. (incorporated by reference to Exhibit 3.2 to the Registration Statement on Form S-1 No. 333-46975).
3.3	Certificate of Incorporation of L-3 Communications Corporation (incorporated by reference to Exhibit 3.1 to L-3 Communications Corporation's Registration Statement on Form S-4 No. 333-31649).
3.4	Bylaws of L-3 Communications Corporation (incorporated by reference to Exhibit 3.2 to L-3 Communications Corporation's Registration Statement on Form S-4 No. 333-31649).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to L-3 Communications Holdings' Registration Statement on Form S-1 No. 333-46975).
10.6	Employment Agreement dated April 30, 1997 between Frank C. Lanza and L-3 Communications Holdings, Inc. (incorporated by reference to Exhibit 10.5 to L-3 Communications Holdings' Registration Statement on Form S-1 No. 333-46975).
10.11	1997 Stock Option Plan for Key Employees (incorporated by reference to Exhibit 10.11 to L-3 Communications Holdings' Registration Statement on Form S-1, No. 333-70125).
10.12	Non-Qualified Stock Option Agreement dated as of April 30, 1997 by and between L-3 Communications Holdings, Inc. and Frank C. Lanza (incorporated by reference to Exhibit 10.12 to L-3 Communications Holdings' Registration Statement on Form S-1, No. 333-70125).

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Exhibit No.	Description of Exhibit
10.13	Non-Qualified Stock Option Agreement dated as of April 30, 1997 by and between L-3 Communications Holdings, Inc. and Robert V. LaPenta (incorporated by reference to Exhibit 10.13 to L-3 Communications Holdings' Registration Statement on Form S-1, No. 333-70125).
10.15	1998 Directors Option Plan for Non-Employee Directors of L-3 Communications Holdings, Inc (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K filed on March 31, 1999).
10.16	1999 Long Term Performance Plan dated as of April 27, 1999 (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K filed on March 30, 2000).
10.20	L-3 Communications Corporation Pension Plan (incorporated by reference to Exhibit 10.10 to L-3 Communications Holdings' Registration Statement on Form S-1, No. 333-46975).
10.25	L-3 Communications Corporation Employee Stock Purchase Plan (incorporated by reference to Appendix A of L-3 Communications Holdings' Definitive Proxy Statement filed on April 2, 2001).
10.32	Indenture dated as of December 22, 2003 ("December 2003 Indenture") among L-3 Communications Corporation, the Guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
10.33	Indenture dated as of May 21, 2003 ("May 2003 Indenture") among L-3 Communications Corporation, the Guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to L-3 Communications Corporation's Registration Statement on Form S-4, No. 333-106106).
**10.40	Credit Agreement, dated as of March 9, 2005, among L-3 Communications Corporation, L-3 Communications Holdings, Inc. and certain subsidiaries of the Company from time to time party thereto as guarantors, the lenders from time to time party thereto, and Bank of America, N.A., as administrative agent.
**10.55	Supplemental Indenture dated as of March 10, 2005 among L-3 Communications Corporation, The Bank of New York, as trustee, and the guarantors named therein to the May 2003 Indenture.
10.58	Asset Purchase Agreement dated as of January 11, 2002 among Raytheon Company, Raytheon Australia Pty Ltd. and L-3 Communications Corporation (incorporated by reference to Exhibit 10.59 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).
10.59	Amendment dated as of March 8, 2002 among Raytheon Company, Raytheon Australia Pty Ltd., L-3 Communications Corporation, L-3 Communications Integrated Systems L.P. and L-3 Communications Australia Pty Ltd to the Asset Purchase Agreement dated as of January 11, 2002 (incorporated by reference to Exhibit 10.60 of the Company's Annual Report on Form 10-K for the year ended December 31, 2001).

- 10.61 Indenture dated as of November 12, 2004 (the "2004 Indenture") among L-3 Communications Corporation, the Guarantors and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 to L-3 Communications Corporation's Registration Statement on Form S-4, No. 333-122499).
- 10.62 Indenture dated as of June 28, 2002, ("2002 Indenture") among L-3 Communications Corporation, the guarantors named therein and The Bank of New York, as Trustee (incorporated by reference to Exhibit 4.1 of L-3 Communications Corporation's Registration Statement on Form S-4, No. 333-99757).

Exhibit No.	Description of Exhibit
**10.63	Supplemental Indenture dated as of March 10, 2005 among L-3 Communications Corporation, The Bank of New York, as trustee, and the guarantors named therein to the June 2002 Indenture.
10.64	Transaction Agreement dated as of October 21, 2003 by and among L-3 Communications Corporation, RAAH I, LLC and Vertex Aerospace LLC (incorporated by reference to Exhibit 10.95 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003).
**10.65	Supplemental Indenture dated as of March 10, 2005 among L-3 Communications Corporation, The Bank of New York, as trustee, and the guarantors named therein to the December 2003 Indenture.
10.66	Amendment to the L-3 Communications Holdings, Inc. 1999 Long Term Performance Plan (incorporated by reference to Exhibit 4.4 of L-3 Holdings' Registration Statement on Form S-8, No. 333-120393).
10.67	Amendment to the L-3 Communications Holdings, Inc. 1999 Long Term Performance Plan (incorporated by reference to Exhibit 4.5 of L-3 Holdings' Registration Statement on Form S-8, No. 333-120393).
**10.68	Supplemental Indenture dated as of March 10, 2005 among L-3 Communications Corporation, The Bank of New York, as trustee, and the guarantors named therein to the 2004 Indenture.
**10.96	Form of L-3 Communications Holdings, Inc. 1998 Directors Stock Option Plan Nonqualified Stock Option Agreement.
10.97	Form of L-3 Communications Holdings, Inc. 1999 Long Term Performance Plan Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.97 of the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2004).
10.98	2005 Base Salaries for Named Executive Officers (incorporated by reference to the Company's Form 8-K filed on March 7, 2005).
*11	L-3 Communications Holding, Inc. Computation of Basic Earnings Per Share and Diluted Earnings Per Share.
**12	Ratio of Earnings to Fixed Charges.
**21	Subsidiaries of the Registrant.
**23.1	Consent of PricewaterhouseCoopers LLP.
**31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
**31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
**32	Section 1350 Certifications.

* The information required in this exhibit is presented on Note 12 to the Consolidated Financial Statements as of December 31, 2004 in accordance with the provisions of SFAS No. 128, *Earnings Per Share*.

** Filed herewith

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrants have duly caused this report to be signed on their behalf by the undersigned, thereunto duly authorized, on March 15, 2005.

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

By: /s/ Michael T. Strianese
Title: Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrants on March 15, 2005 and in the capacities indicated.

Signature	Title
/s/ Frank C. Lanza Frank C. Lanza	Chairman, Chief Executive Officer (Principal Executive Officer) and Director
Robert V. LaPenta	President and Director
/s/ Michael T. Strianese Michael T. Strianese	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Ralph G. D'Ambrosio Ralph G. D'Ambrosio	Vice President - Finance (Principal Accounting Officer)
/s/ Claude R. Canizares Claude R. Canizares	Director
/s/ Thomas A. Corcoran Thomas A. Corcoran	Director
/s/ Robert B. Millard Robert B. Millard	Director
/s/ John M. Shalikashvili John M. Shalikashvili	Director
/s/ Arthur L. Simon Arthur L. Simon	Director
/s/ Alan H. Washkowitz Alan H. Washkowitz	Director
/s/ John P. White John P. White	Director

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed an integrated audit of the 2004 consolidated financial statements and of the internal control over financial reporting as of December 31, 2004 for each of L-3 Communications Holdings, Inc. ("L-3 Holdings") and L-3 Communications Corporation ("L-3 Communications") and subsidiaries' (collectively, the "Company") and audits of the December 31, 2003 and 2002 consolidated financial statements of L-3 Holdings and L-3 Communications in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of L-3 Holdings and L-3 Communications and subsidiaries at December 31, 2004 and 2003, and the results of each of their operations and each of their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable

assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As indicated in Note 12 to the consolidated financial statements, in 2004 the Company adopted the provisions of Emerging Issues Task Force Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share*. As indicated in Note 5 to the consolidated financial statements, in 2002 the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*.

Internal control over financial reporting

Also, in our opinion, management's assessments, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A, that L-3 Holdings and L-3 Communications maintained effective internal control over financial reporting as of December 31, 2004 based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), are fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, L-3 Holdings and L-3 Communications maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control – Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessments of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessments and on the effectiveness of L-3 Holdings' and L-3 Communications' internal control over financial reporting based on our audits. We conducted our audits of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
New York, New York
March 15, 2005

L-3 COMMUNICATIONS HOLDINGS, INC.
AND L-3 COMMUNICATIONS CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2004	2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 653,419	\$ 134,876
Contracts in process	1,979,027	1,615,348
Deferred income taxes	127,066	152,785
Other current assets	48,812	34,693
Total current assets	2,808,324	1,937,702
Property, plant and equipment, net	556,972	519,749
Goodwill	4,054,814	3,652,436
Identifiable intangible assets	185,804	162,156
Deferred income taxes	—	100,482
Deferred debt issue costs	35,997	48,572
Other assets	138,854	84,225
Total assets	\$ 7,780,765	\$ 6,505,322

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

Accounts payable, trade	\$ 281,456	\$ 195,548
Accrued employment costs	304,257	239,690
Accrued expenses	69,678	72,880
Billings in excess of costs and estimated profits	138,308	71,235
Customer advances	107,334	58,078
Income taxes	84,394	70,159
Other current liabilities	<u>190,413</u>	<u>216,622</u>
Total current liabilities	<u>1,175,840</u>	<u>924,212</u>

Pension and postretirement benefits	409,089	371,452
Other liabilities	128,733	101,651
Long-term debt	<u>2,189,806</u>	<u>2,457,300</u>
Total liabilities	<u>3,903,468</u>	<u>3,854,615</u>

Commitments and contingencies

Minority interests	<u>77,536</u>	<u>76,211</u>
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Shareholders' equity:

L-3 Holdings' common stock; \$.01 par value; authorized 300,000,000 shares, issued and outstanding 115,681,992 and 97,077,495 shares (L-3 Communications' common stock; \$.01 par value, 100 shares authorized, issued and outstanding)	2,780,458	1,893,488
Retained earnings	1,095,929	757,467
Unearned compensation	(3,932)	(3,622)
Accumulated other comprehensive loss	<u>(72,694)</u>	<u>(72,837)</u>
Total shareholders' equity	<u>3,799,761</u>	<u>2,574,496</u>
Total liabilities and shareholders' equity	<u>\$ 7,780,765</u>	<u>\$ 6,505,322</u>

See notes to consolidated financial statements.

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**L-3 COMMUNICATIONS HOLDINGS, INC.
AND L-3 COMMUNICATIONS CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)**

	Year Ended December 31,		
	2004	2003	2002
Sales:			
Contracts, primarily U.S. Government	\$ 6,155,598	\$ 4,401,743	\$ 3,581,271
Commercial, primarily products	<u>741,399</u>	<u>659,851</u>	<u>429,958</u>
Total sales	<u>6,896,997</u>	<u>5,061,594</u>	<u>4,011,229</u>
Costs and expenses:			
Contracts, primarily U.S. Government	5,476,742	3,863,805	3,139,013
Commercial, primarily products:			
Cost of sales	458,893	416,980	270,584
Selling, general and administrative expenses	141,549	140,622	111,956
Research and development expenses	<u>71,194</u>	<u>59,166</u>	<u>35,697</u>
Total costs and expenses	<u>6,148,378</u>	<u>4,480,573</u>	<u>3,557,250</u>
Operating income	748,619	581,021	453,979
Other expense (income), net	(7,252)	(215)	(4,921)
Interest expense	145,348	132,683	122,492
Minority interests in net income of consolidated subsidiaries	8,862	3,515	6,198
Loss on retirement of debt	<u>4,973</u>	<u>11,225</u>	<u>16,187</u>
Income before income taxes and cumulative effect of a change in accounting principle	596,688	433,813	314,023
Provision for income taxes	<u>214,808</u>	<u>156,173</u>	<u>111,556</u>
Income before cumulative effect of a change in accounting principle	381,880	277,640	202,467
Cumulative effect of a change in accounting principle, net of income tax benefit of \$6,428 (Note 5)	<u>—</u>	<u>—</u>	<u>(24,370)</u>
Net income	<u>\$ 381,880</u>	<u>\$ 277,640</u>	<u>\$ 178,097</u>

L-3 Holdings' earnings per common share:

Basic:			
Income before cumulative effect of a change in accounting principle	\$ 3.54	\$ 2.89	\$ 2.33
Cumulative effect of a change in accounting principle	<u>—</u>	<u>—</u>	<u>(0.28)</u>
Net income	<u>\$ 3.54</u>	<u>\$ 2.89</u>	<u>\$ 2.05</u>

Diluted:

Income before cumulative effect of a change in accounting principle	\$ 3.33	\$ 2.62	\$ 2.13
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Cumulative effect of a change in accounting principle	—	—	(0.23)
Net income	<u>\$ 3.33</u>	<u>\$ 2.62</u>	<u>\$ 1.90</u>

L-3 Holdings' weighted average common shares outstanding:

Basic	<u>107,838</u>	<u>96,022</u>	<u>86,943</u>
Diluted	<u>117,372</u>	<u>113,869</u>	<u>105,216</u>

See notes to consolidated financial statements.

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**L-3 COMMUNICATIONS HOLDINGS, INC.
AND L-3 COMMUNICATIONS CORPORATION**
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2004, 2003 and 2002
(in thousands)

	<u>L-3 Holdings' Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Unearned</u>	<u>Accumulated Other Comprehensive</u>	
	<u>Shares Issued</u>	<u>Par Value</u>	<u>Paid-in Capital</u>	<u>Earnings</u>	<u>Compensation</u>	<u>Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2001	78,497	\$ 785	\$ 938,252	\$ 301,730	\$ (3,205)	\$ (23,670)	\$ 1,213,892
Comprehensive income:							
Net income				178,097			178,097
Minimum pension liability, net of \$29,859 tax benefit						(45,580)	(45,580)
Foreign currency translation adjustment, net of \$1,626 tax benefit						65	65
Unrealized losses on hedging instruments reclassified to net income from other comprehensive loss, net of \$198 tax expense						323	323
Unrealized losses on hedging instruments, net of \$275 tax benefit						(437)	(437)
							<u>132,468</u>
Shares issued:							
Sale of common stock	14,000	140	766,640				766,780
Employee savings plans	529	5	28,133				28,138
Business acquisition consideration	229	2	10,605				10,607
Exercise of stock options	970	10	30,665				30,675
Employee stock purchase plan	352	4	17,474				17,478
Grant of restricted stock			2,231		(2,231)		—
Amortization of unearned compensation					2,134		2,134
Other			30				30
Balance at December 31, 2002	<u>94,577</u>	<u>946</u>	<u>1,794,030</u>	<u>479,827</u>	<u>(3,302)</u>	<u>(69,299)</u>	<u>2,202,202</u>
Comprehensive income:							
Net income				277,640			277,640
Minimum pension liability, net of \$2,313 tax benefit						(4,189)	(4,189)
Foreign currency translation adjustment, net of \$141 tax benefit						(245)	(245)
Unrealized gains on hedging instruments, net of \$571 tax expense						896	896
							<u>274,102</u>
Shares issued:							
Employee savings plans	912	9	39,485				39,494
Business acquisition consideration	110	1	4,968				4,969
Exercise of stock options	835	8	22,722				22,730
Employee stock purchase plan	603	6	26,378				26,384
Conversion of 5¼% Convertible Senior Subordinated Notes	40	1	1,629				1,630
Grant of restricted stock			3,295		(3,295)		—
Amortization of unearned compensation					2,975		2,975
Other			10				10
Balance at December 31, 2003	<u>97,077</u>	<u>971</u>	<u>1,892,517</u>	<u>757,467</u>	<u>(3,622)</u>	<u>(72,837)</u>	<u>2,574,496</u>
Comprehensive income:							
Net income				381,880			381,880
Minimum pension liability, net of \$3,773 tax benefit						(5,290)	(5,290)
Foreign currency translation adjustment, net of \$4,541 tax expense						7,098	7,098
Unrealized losses on hedging instruments, net of \$1,222 tax benefit						(1,911)	(1,911)
Unrealized loss on securities, reclassified to net income from other comprehensive loss, net of \$154 tax expense						246	246
							<u>382,023</u>
Cash dividends paid on common stock				(43,418)			(43,418)
Shares issued:							
Employee savings plans	871	9	53,828				53,837
Business acquisition consideration	110	1	6,981				6,982
Exercise of stock options	1,532	15	68,818				68,833
Employee stock purchase plan	705	7	32,924				32,931
Conversion of 5¼% Convertible Senior Subordinated Notes	7,317	73	292,246				292,319
Conversion of 4% Senior Subordinated Convertible Contingent Debt Securities (CODES)	7,801	78	430,353				430,431
Grant of restricted stock			3,635		(3,635)		—
Amortization of unearned compensation					3,325		3,325
Other	269	3	(2,001)				(1,998)
Balance at December 31, 2004	<u>115,682</u>	<u>\$1,157</u>	<u>\$2,779,301</u>	<u>\$1,095,929</u>	<u>\$ (3,932)</u>	<u>\$ (72,694)</u>	<u>\$3,799,761</u>

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Year Ended December 31,		
	2004	2003	2002
Operating activities:			
Net income	\$ 381,880	\$ 277,640	\$ 178,097
Cumulative effect of a change in accounting principle	—	—	24,370
Loss on retirement of debt	4,973	11,225	16,187
Depreciation	91,541	77,340	66,230
Amortization of intangibles and other assets	27,408	18,083	9,630
Amortization of deferred debt issue costs (included in interest expense)	7,195	7,977	7,392
Deferred income tax provision	123,409	94,747	79,092
Minority interests in net income of consolidated subsidiaries	8,862	3,515	6,198
Contributions to employee savings plans in L-3 Holdings' common stock	53,837	39,494	28,138
Other non-cash items	(1,128)	279	515
Subtotal	<u>697,977</u>	<u>530,300</u>	<u>415,849</u>
Changes in operating assets and liabilities, excluding acquired amounts:			
Contracts in process	(245,430)	(120,397)	(75,031)
Other current assets	(15,298)	(1,731)	(15,257)
Other assets	(32,953)	(15,861)	(16,641)
Accounts payable	62,168	(19,503)	(21,904)
Accrued employment costs	54,805	20,558	30,100
Accrued expenses	(3,361)	5,646	(2,581)
Billings in excess of costs and estimated profits	14,071	18,325	(24,744)
Customer advances	33,728	(4,773)	(11,272)
Income taxes	53,865	44,081	30,852
Other current liabilities	(20,452)	(36,206)	(9,263)
Pension and postretirement benefits	9,455	5,088	(1,670)
Other liabilities	7,214	19,008	20,517
All other operating activities, principally foreign currency translation	4,882	11,528	(495)
Subtotal	<u>(77,306)</u>	<u>(74,237)</u>	<u>(97,389)</u>
Net cash from operating activities	<u>620,671</u>	<u>456,063</u>	<u>318,460</u>
Investing activities:			
Business acquisitions, net of cash acquired	(473,433)	(1,014,439)	(1,742,133)
Proceeds from sale of businesses	—	8,795	—
Capital expenditures	(80,507)	(82,874)	(62,058)
Dispositions of property, plant and equipment	11,968	3,854	3,548
Other investing activities	(13,471)	(3,393)	(9,885)
Net cash used in investing activities	<u>(555,443)</u>	<u>(1,088,057)</u>	<u>(1,810,528)</u>
Financing activities:			
Borrowings under revolving credit facilities	—	295,000	566,000
Repayment of borrowings under revolving credit facilities	—	(295,000)	(566,000)
Borrowings under bridge loan facility	—	—	500,000
Repayment of borrowings under bridge loan facility	—	—	(500,000)
Proceeds from sale of senior subordinated notes	650,000	790,788	750,000
Redemption of senior subordinated notes	(205,751)	(187,650)	(237,468)
Proceeds from sale of L-3 Holdings' common stock, net	—	—	766,780
Debt issuance costs	(12,619)	(9,591)	(19,759)
Cash dividends paid on common stock	(43,418)	—	—
Proceeds from exercise of stock options	52,176	14,273	17,372
Proceeds from employee stock purchase plan	32,931	26,384	17,478
Distributions paid to minority interests	(7,537)	(1,975)	(2,854)
Other financing activities	(12,467)	(215)	(25,647)
Net cash from financing activities	<u>453,315</u>	<u>632,014</u>	<u>1,265,902</u>
Net increase (decrease) in cash	518,543	20	(226,166)
Cash and cash equivalents, beginning of the period	134,876	134,856	361,022
Cash and cash equivalents, end of the period	<u>\$ 653,419</u>	<u>\$ 134,876</u>	<u>\$ 134,856</u>

See notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Dollars in thousands, except per share data)

1. Description of Business

L-3 Communications Holdings, Inc. conducts its operations and derives all of its operating income and cash flow from its wholly-owned subsidiary, L-3 Communications Corporation (L-3 Communications). L-3 Communications Holdings, Inc. (L-3 Holdings and together with its subsidiaries, L-3 or the Company) is a leading supplier of a broad range of products used in a substantial number of aerospace and defense platforms. L-3 also is a major supplier of subsystems on many platforms, including those for secure communication networks and communication products, mobile satellite communications, information security systems, shipboard communications, naval power systems, fuzes and safety and arming devices for missiles and munitions, microwave assemblies for radars and missiles, telemetry and instrumentation and airport security systems. The Company also is a prime system contractor for aircraft modernization and operations & maintenance (O&M), Intelligence, Surveillance and Reconnaissance (ISR) collection systems, training and simulation and government support services. The Company's customers include the U.S. Department of Defense (DoD) and its prime contractors, the U.S. Department of Homeland Security (DHS), U.S. Government intelligence agencies, major aerospace and defense contractors, allied foreign government ministries of defense, commercial customers and certain other U.S. federal, state and local government agencies.

The Company has four reportable segments: (1) Secure Communications & ISR; (2) Training, Simulation & Government Services; (3) Aircraft Modernization, O&M and Products (formerly known as Aviation Products & Aircraft Modernization); and (4) Specialized Products.

The Secure Communications & ISR segment provides products and services for the global ISR market as well as secure, high data rate communications systems and equipment primarily for reconnaissance and surveillance applications. The Company believes that these systems and products are critical elements for a substantial number of major communication, command and control, intelligence gathering and space systems.

These systems and products are used to connect a variety of airborne, space, ground and sea-based communication systems and are used in the transmission, processing, recording, monitoring and dissemination functions of these communication systems. The Training, Simulation & Government Services segment provides maintenance and logistics support for training devices, communications systems support and engineering services, teaching and training services, and marksmanship training systems and services. The Aircraft Modernization, O&M and Products segment provides specialized aircraft modernization, upgrade and maintenance services and logistics support services, traffic alert and collision avoidance systems, terrain awareness warning systems, cockpit voice and flight data recorders, advanced cockpit avionics products and ruggedized custom cockpit displays. The Specialized Products segment provides a broad range of products, including naval warfare products, telemetry and navigation products, sensors, premium fuzing products, security systems, training devices and microwave components.

2. Summary of Significant Accounting Policies

Basis of Presentation: The accompanying financial statements comprise the consolidated financial statements of L-3 Holdings and L-3 Communications. L-3 Holdings' only asset is its investment in the common stock of L-3 Communications, its wholly-owned subsidiary. L-3 Holdings' obligations of 5¼% Convertible Senior Subordinated Notes due 2009 and 4% Senior Subordinated Convertible Contingent Debt Securities due 2011 (CODES) were converted into L-3 Holdings' common stock during 2004. L-3 Holdings has also guaranteed the borrowings under the senior credit facilities of L-3 Communications. L-3 Holdings' obligations have been jointly, severally, fully and unconditionally guaranteed by L-3 Communications and certain of its domestic subsidiaries, and accordingly, such debt has been reflected as debt of L-3 Communications in its consolidated financial statements in accordance with the U.S. Securities and

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued) (Dollars in thousands, except per share data)

Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 54. In addition, all issuances of and conversions into L-3 Holdings' equity securities, including grants of stock options and restricted stock by L-3 Holdings to employees of L-3 Communications, have been reflected in the consolidated financial statements of L-3 Communications. As a result, the consolidated financial positions, results of operations and cash flows of L-3 Holdings and L-3 Communications are substantially the same. See Note 20 for additional information.

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

Sales And Costs And Expenses Presentation: The Company presents its sales and costs and expenses in two categories on the statement of operations, "Contracts, primarily U.S. Government" and "Commercial, primarily products." Sales and costs and expenses for the Company's businesses that are primarily U.S. Government contractors are presented as "Contracts, primarily U.S. Government." The sales for the Company's U.S. Government contractor businesses are transacted using written revenue arrangements, or contracts, which primarily require the Company to design, develop, manufacture, modify, upgrade, test and integrate complex aerospace and electronic equipment, and to provide related engineering and technical services according to the buyer's specifications. Such buyers are predominantly the U.S. Department of Defense and other agencies of the U.S. Government, allied foreign government ministries of defense and defense prime contractors. These contracts are covered by the American Institute of Certified Public Accountants (AICPA) Statement of Position 81-1, *Accounting for Performance of Construction — Type and certain Production-Type Contracts* (SOP 81-1), Accounting Research Bulletin No. 43, Chapter 11, Section A, *Government Contracts, Cost-Plus-Fixed Fee Contracts* (ARB 43) and Accounting Research Bulletin No. 45, *Long-Term Construction Type Contracts* (ARB 45). Sales reported under "Contracts, primarily U.S. Government" also include certain sales from contracts with domestic and foreign commercial customers, which also are within the scope of SOP 81-1 and ARB 45. Additionally, certain fixed price contracts require the Company to perform services that are not related to the production of tangible assets which are not covered by SOP- 81-1, and these sales are recognized in accordance with the SEC's SAB No. 104, *Revenue Recognition* (SAB 104). Sales and costs and expenses for the Company's businesses whose customers are primarily commercial business enterprises are presented as "Commercial, primarily products". Most of these sales are recognized in accordance with SAB 104, and substantially all of the related revenue arrangements are not within the scope of SOP 81-1, ARB 43 or ARB 45. The Company's commercial businesses are substantially comprised of Aviation Communication & Surveillance Systems (ACSS), Aviation Recorders, Microwave Components, Security & Detection Systems and Avionics Systems.

Cash and Cash Equivalents: Cash equivalents consist of highly liquid investments with a maturity of three months or less at time of purchase.

Revenue Recognition: The substantial majority of the Company's direct and indirect sales to the U.S. Government and certain of the Company's sales to allied foreign governments and commercial customers are within the scope of SOP 81-1, ARB 43 and ARB 45 and sales and profits on them are recognized using percentage-of-completion methods of accounting. Sales and profits on fixed-price production contracts under which units are produced and delivered in a continuous or sequential process are recorded as units are delivered based on their contractual selling prices (the "units-of-delivery" method). Sales and profits on fixed-price production contracts under which units are not produced and delivered in a continuous or sequential process, or under which a relatively few number of units are

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)

produced, are recorded based on the ratio of total actual incurred costs to date to the total estimated costs for each contract (the "cost-to-cost" method). Under the percentage-of-completion methods of accounting, a single estimated total profit margin is used to recognize profit for each contract over its entire period of performance, which can exceed one year. Amounts representing contract change orders or claims are included in sales and estimated contract values only when they can be reliably estimated and their realization is reasonably assured. Losses on contracts are recognized in the period in which they are determined. The impact of revisions of contract estimates, which may result from contract modifications, performance or other reasons, are recognized on a cumulative catch-up basis in the period in which the revisions are made. Sales and profits on fixed-price contracts that require us to perform services that are not related to production of tangible assets are recognized in accordance with SAB 104.

Sales and profits on cost-reimbursable type contracts that are within the scope of ARB 43 in addition to SOP 81-1 are recognized as allowable costs are incurred on the contract and become billable to the customer, at an amount equal to the allowable costs plus the estimated profit on those costs. The estimated profit on a cost-reimbursable contract is generally fixed or variable based on the contract fee arrangement. Incentive and award fees on these contracts are recorded as revenue when the conditions under which they are earned are reasonably assured of being met.

Sales and profits on time and material type contracts are recognized on the basis of direct labor hours expended at fixed hourly rates plus the cost of materials and other specified costs.

Sales on arrangements that are not within the scope of SOP 81-1, ARB 43 or ARB 45 are recognized in accordance with SAB 104. Sales are recognized when there is persuasive evidence of an arrangement, delivery has occurred or services have been performed, the selling price to the buyer is fixed or determinable and collectibility is reasonably assured. For fixed-price contracts that are not within the scope of SOP 81-1, which the performance of services are not related to production of tangible assets and do not contain measurable units of work performed, sales are recognized on straight-line basis over the contractual service period. For fixed-price service contracts that are not within the scope of SOP 81-1, and contain measurable units of work performed, sales are recognized when the units of work are completed.

Contracts in Process: Contracts in process include receivables and inventories for contracts that are within the scope of SOP 81-1, ARB 43 and ARB 45, as well as receivables and inventories related to other contractual arrangements. Billed Receivables represent the uncollected portion of amounts recorded as sales and billed to customers for all revenue arrangements, net of allowances for uncollectible accounts. Unbilled Contract Receivables represent accumulated incurred costs and earned profits or losses on contracts in process that have been recorded as sales, primarily using the cost-to-cost percentage of completion method, which have not yet been billed to customers. Inventoried Contract Costs represent incurred costs on contracts in process that have not yet been recognized as costs and expenses because the related sales, which are primarily recorded using the units-of-delivery percentage of completion method, have not been recognized. Contract costs include direct costs and indirect costs, including overhead costs. As discussed below in Note 4, the Company's inventoried contract costs for U.S. Government contracts, and contracts with prime contractors or subcontractors of the U.S. Government include allocated general and administrative costs, independent research and development costs and bid and proposal costs. Contracts in Process contain amounts relating to contracts and programs with long performance cycles, a portion of which may not be realized within one year. For contracts in a loss position, the unrecoverable costs expected to be incurred in future periods are recorded in Estimated Costs in Excess of Estimated Contract Value to Complete Contracts in Process, which is a component of Other Current Liabilities. Under the terms of certain revenue arrangements (contracts) with the U.S. Government, the Company may receive progress payments as it incurs costs, or milestone payments as it performs work. The U.S. Government has a security interest in the Unbilled Contract Receivables and Inventoried Contract Costs to which progress payments have been applied, and such progress payments are reflected as a reduction

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)

of the related Unbilled Contract Receivables and Inventoried Contract Costs. Milestone payments that have been received in excess of contract costs and estimated profits on revenue arrangements are reported on the Company's balance sheet as a component of current liabilities as Billings in Excess of Costs and Estimated Profits. Customer Advances are reported in the balance sheet as a component of current liabilities.

Inventories other than Inventoried Contract Costs are stated at the lower of cost or market primarily using the average cost method.

The Company values its acquired contracts in process on the date of acquisition at contract value less the Company's estimated costs to complete the contract and a reasonable profit allowance on the Company's completion effort commensurate with the profit margin that the Company earns on similar contracts.

Derivative Financial Instruments: The Company has entered into interest rate swap agreements and foreign currency forward contracts. Derivative financial instruments also include embedded derivatives. The Company's interest rate swap agreements have been accounted for as fair value hedges. The difference between the variable interest rates paid on the interest rate swap agreements and the fixed interest rate on the debt instrument underlying the swap agreements is recorded as increases or decreases to interest expense. Upon termination of an interest rate swap agreement, the cash received or paid that relates to the future value of the swap agreements at the termination date is a deferred gain or loss, which is recognized as a decrease or increase to interest expense over the remaining term of the underlying debt instrument. Foreign currency forward contracts are accounted for as cash flow hedges. Gains and losses on foreign currency forward contracts are recognized in earnings when the underlying hedged transaction within contracts in process affects earnings. The embedded derivatives related to the issuance of the Company's debt are recorded at fair value with changes reflected in the statement of operations.

Property, Plant and Equipment: Property, plant and equipment are stated at cost, less accumulated depreciation. Depreciation is computed by applying principally the straight-line method to the estimated useful lives of the related assets. Useful lives range substantially from 10 to 40 years for buildings and improvements and 3 to 10 years for machinery, equipment, furniture and fixtures. Leasehold improvements are amortized over the shorter of the lease term or the estimated useful life of the improvements. When property or equipment is

retired or otherwise disposed of, the net book value of the asset is removed from the Company's balance sheet and the net gain or loss is included in the determination of operating income.

Debt Issue Costs: Costs to issue debt are capitalized and deferred when incurred, and subsequently amortized to interest expense over the term of the related debt using a method that approximates the effective interest method.

Identifiable Intangible Assets: Identifiable intangible assets represent assets acquired as part of the Company's business acquisitions and include customer relationships, technology and non-compete agreements. Effective January 1, 2002, the initial measurement of these intangible assets has been based on their fair values. The values assigned to acquired identifiable intangible assets are determined, as of the date of acquisition, based on estimates and judgements regarding expectations for the estimated future after-tax cash flows from those assets over their lives, including the probability of expected future contract renewals and sales, less a cost-of-capital charge, all of which is discounted to present value. Identifiable intangible assets are amortized over their estimated useful lives as the economic benefits are consumed, ranging from 5 to 20 years.

Goodwill: Effective January 1, 2002, the Company accounts for goodwill in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and other Intangible Assets*. The

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carrying value of goodwill and indefinite lived identifiable intangible assets are not amortized, but are tested for impairment based on their estimated fair values using discounted cash flows valuation at the beginning of each year, and whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over periods ranging from 15 to 40 years except for goodwill related to acquisitions consummated after June 30, 2001. Prior to the adoption of SFAS 142, the Company evaluated the carrying amount of goodwill by reference to current and estimated profitability and undiscounted cash flows.

Income Taxes: The Company provides for income taxes using the liability method. Deferred income tax assets and liabilities reflect tax carryforwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes, as determined under enacted tax laws and rates. The effect of changes in tax laws or rates is accounted for in the period of enactment. Valuation allowances for deferred tax assets are provided when it is more likely than not that the assets will not be realized, considering, when appropriate, tax planning strategies.

Research and Development: Independent research and development costs sponsored by the Company include bid and proposal costs, and relate to both U.S. Government products and services and those for commercial and foreign customers. The independent research and development (IRAD) and bid and proposal costs (B&P) for the Company's businesses that are U.S. Government contractors are recoverable indirect contract costs that are allocated to our U.S. Government contracts in accordance with U.S. Government procurement regulations, and are specifically excluded from the scope of SFAS No. 2, *Accounting for Research and Development Costs* (SFAS 2). In accordance with SOP 81-1 and the AICPA Audit and Accounting Guide, *Audits of Federal Government Contractors*, the Company includes IRAD and B&P costs allocated to U.S. Government contracts in inventoried contract costs, and charges them to costs of sales when the related contract sales are recognized as revenue. Research and development costs for the Company's businesses that are not U.S. Government contractors are expensed as incurred in accordance with SFAS 2.

Customer-funded research and development costs are incurred pursuant to contracts (revenue arrangements) to perform research and development activities according to customer specifications. These costs are not accounted for as research and development expenses in accordance with SFAS 2, and are also not indirect contract costs. Instead, these costs are direct contract costs and are expensed when the corresponding revenue is recognized, which is generally as the research and development services are performed. Customer-funded research and development costs are substantially all incurred under cost-reimbursable type contracts with the U.S. Government.

Computer Software Costs: The Company's software development costs for computer software products to be sold, leased or marketed that are incurred after establishing technological feasibility for the computer software products are capitalized as other assets and amortized on a product by product basis using the amount that is the greater of the straight-line method over the useful life or the ratio of current revenues to total estimated revenues in accordance with SFAS No. 86, *Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed*. Substantially all of the capitalized software development costs pertain to products of the Company's commercial businesses. Capitalized software development costs, net of accumulated amortization, was \$34,557 at December 31, 2004 and \$29,990 at December 31, 2003, and is included in Other Assets on the consolidated balance sheets. Amortization expense for capitalized software development costs was \$7,760 for 2004, \$6,917 for 2003 and \$5,209 for 2002.

Stock-Based Compensation: The Company accounts for employee stock-based compensation under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. Compensation expense for employee stock-based compensation is recognized in income based on the excess, if any, of the fair value of L-3 Holdings' stock at the grant

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date of the award or other measurement date over the amount an employee must pay to acquire the stock. When the exercise price for stock-based compensation arrangements granted to employees equals or exceeds the fair

value of the L-3 Holdings common stock at the date of grant, the Company does not recognize compensation expense. The Company elected not to adopt the fair value based method of accounting for stock-based employee compensation as permitted by the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), as amended by SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS No. 123*. Had the Company adopted the fair value based method provisions of SFAS 123 for all of its stock-based compensation, it would have recorded a non-cash expense for the estimated fair value of the stock-based compensation arrangements that the Company has granted to its employees amortized over the vesting period of the grants. Stock-based employee compensation is a non-cash expense, because the Company settles its stock-based compensation obligations by issuing shares of common stock instead of settling such obligations with cash payments. All of the stock options granted to employees by the Company are non-qualified stock options under U.S. income tax regulations. As discussed below in Recently Issued Accounting Standards, SFAS 123 was revised in December 2004.

The table below presents the "as reported" net income and L-3 Holdings earnings per share (EPS) and the "pro forma" net income and L-3 Holdings EPS that the Company would have reported if the Company had elected to recognize non-cash compensation expense in accordance with the fair value based method of accounting of SFAS 123.

	Year Ended December 31,		
	2004	2003	2002
Net income:			
As reported	\$ 381,880	\$ 277,640	\$ 178,097
Pro forma	358,776	259,997	160,079
L-3 Holdings Basic EPS:			
As reported	\$ 3.54	\$ 2.89	\$ 2.05
Pro forma	3.33	2.71	1.84
L-3 Holdings Diluted EPS:			
As reported	\$ 3.33	\$ 2.62	\$ 1.90
Pro forma	3.13	2.47	1.72

The assumptions used to calculate the fair value of stock options at their grant dates are presented in Note 14.

Product Warranties: Product warranty costs are accrued when revenue is recognized for the covered products. Product warranty expense is recognized based on the terms of the product warranty and the related estimated costs. Accrued warranty costs are reduced as product warranty costs are incurred.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts 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 and expenses during the reporting period. The most significant of these estimates and assumptions relate to contract revenue, profit and loss recognition, market values for inventories reported at lower of cost or market, pension and postretirement benefit obligations, recoverability and valuation of recorded amounts of long-lived assets, identifiable intangible assets, goodwill, income taxes, including the valuations of

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deferred tax assets, litigation reserves and environmental obligations. Changes in estimates are reflected in the periods during which they become known. Actual amounts will differ from these estimates.

Recently Issued Accounting Standards: In December of 2004, the FASB revised its FASB Statement No. 123, *Accounting for Stock Based Compensation* (SFAS 123) and renamed it FASB Statement No. 123, *Share-Based Payment* (SFAS 123R). SFAS 123R requires that compensation expense relating to share-based payment transactions be recognized in financial statements at estimated fair value. The scope of SFAS 123R includes a wide range of share-based compensation arrangements, including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. This standard replaces SFAS 123 and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company is required to adopt the provisions of SFAS 123R for the interim period ending September 30, 2005. The Company is currently assessing the provisions of SFAS 123R. The Company previously elected not to adopt the fair value based method of accounting for stock-based employee compensation as permitted by SFAS 123. The adoption of SFAS 123R will result in the recording of non-cash compensation expenses, which is not currently recognized in the Company's financial statements. In accordance with SFAS 123, the Company discloses pro forma net income and earnings per share adjusted for non-cash compensation expense arising from the estimated fair value of share-based payment transactions. See "Stock-Based Compensation" above for a further discussion of the Company's accounting for stock-based employee compensation and disclosure of pro forma historical net income and earnings per share.

The U.S. enacted the American Jobs Creation Act of 2004 (the American Jobs Creation Act) in October 2004 which contains many provisions affecting corporate taxation. The American Jobs Creation Act phases out the extraterritorial income (ETI) exclusion benefit for export sales and phases in a new tax deduction for income from qualified domestic production activities (QPA) over a transition period beginning in 2005. In December 2004, the FASB issued FASB Staff Position 109-1 (FSP 109-1), which provides guidance that the QPA deduction should be treated as a special income tax deduction as described in SFAS 109. As such, QPA has no impact on the Company's deferred tax assets or liabilities existing as of the enactment date. Rather, the QPA deduction will be reported in the period that the deductions are claimed on the Company's income tax returns. While the Company has not completed its evaluation of the net impact of the American Jobs Creation Act, the Company believes that the benefit from the phase-in of the OPA deduction will be substantially equivalent to the lost benefit from the phase-out of the ETI exclusion in 2005. The Company does not expect that the other provisions included in the American Jobs Creation Act will have a significant impact on the Company's financial position, results of operations or cash flows.

On September 30, 2004, the EITF reached a consensus on issue No. 04-8, *The Effect of Contingently, Convertible Debt on Diluted Earnings per Share*. See Note 12 for a description of EITF No. 04-8 and its impact on the Company's results of operations.

On December 8, 2003, President Bush signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). This Act introduces a federal subsidy to employers who sponsor retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. On January 21, 2005, the Centers for Medicare and Medical Services (CMS) released final regulations implementing the Act. The Company has not determined the possible effect of the final regulations on its accumulated postretirement benefit obligation. In May of 2004, the FASB issued FASB Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-2). FSP 106-2 provides guidance on the accounting for the effects of the Act and requires certain disclosures regarding the effect of the federal subsidy

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provided by the Act. In accordance with FSP 106-2 the Company has accounted for the effect of the Act on a preliminary basis and disclosed the effect in Note 16 of these audited consolidated financial statements.

Reclassifications: Effective January 1, 2004, the Company combined its explosives detection systems (EDS) business into L-3 Security and Detection Systems, its IMC business into L-3 Government Services, Inc., the EMP business into its ESSCO business and the Apcom business into its Communication Systems-East business (2004 Business Realignment). As a result of the 2004 Business Realignment, reclassifications between "Contracts, primarily U.S. Government" and "Commercial, primarily products" have been made to the prior period sales and operating income amounts, however, since EDS was primarily a U.S. Government contracting business prior to 2003, the sales and operating income for EDS were not reclassified for 2002 and 2001. Specifically, \$96,456 of 2003 sales, \$9,070 of 2002 sales, \$26,293 of 2003 operating income and \$6,149 of 2002 operating loss was reclassified from "Contracts, primarily U.S. Government" to "Commercial, primarily products." Additionally, \$30,645 of 2003 sales, \$9,239 of 2002 sales, \$2,126 of 2003 operating income and \$7,432 of 2002 operating loss was reclassified from "Commercial, primarily products" to "Contracts, primarily U.S. Government." The 2004 Business Realignment and related reclassifications did not result in any changes to the Company's consolidated results of operations, financial position or cash flow.

3. Acquisitions

2004 Business Acquisitions

During 2004, in separate transactions, the Company acquired 11 businesses, for an aggregate purchase price of \$434,673 in cash, plus acquisition costs. Based on preliminary purchase price allocations, the goodwill recognized for these business acquisitions was \$366,529, of which \$110,810 is expected to be deductible for income tax purposes. Goodwill of \$183,460 was preliminarily assigned to the Secure Communications & ISR segment, \$51,639 to the Training, Simulation & Government Services segment, \$60,612 to the Aircraft Modernization, O&M and Products segment and \$70,818 to the Specialized Products segment. The 2004 business acquisitions were financed with cash on hand. The purchase prices for Beamhit LLC, AVISYS, Inc., D.P. Associates, Inc., Cincinnati Electronics, Inc., BAI Aerosystems, Inc. and L-3 Electronic Systems are subject to adjustment based on the closing date net assets or net working capital of the respective acquired business. The Company completed the business acquisitions listed below during 2004:

- Substantially all of the assets and certain specified liabilities of Beamhit LLC on May 13, 2004, for \$40,000 in cash, plus additional consideration contingent upon the financial performance of Beamhit for the years ending December 31, 2005, 2006 and 2007. Any such additional consideration will be accounted for as goodwill. Beamhit is a developer and supplier of laser marksmanship training systems, and adds a series of new products to the Company's expanding role in readiness training and simulation products and services;
- Substantially all of the assets and liabilities of Brashear, LP on June 14, 2004, for \$36,290 in cash. Brashear is a developer and supplier of complex electro-optical systems, including laser ranging and tracking systems, test range instrumentation, telescope systems, naval fire control systems and laser beam directors for military and international customers. Brashear adds new capabilities to the Company's role in advanced optics;
- Substantially all of the assets and liabilities of the Commercial Infrared business of Raytheon Company (Raytheon) on November 9, 2004, for \$44,212 in cash. The business was renamed L-3 Communications Infrared Products (Infrared Products). Infrared Products is a leading producer of uncooled thermal imaging products for the public safety, fire and rescue, security, transportation and industrial markets;

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- All of the outstanding stock of Cincinnati Electronics, Inc. on December 9, 2004, for \$176,438 in cash. Cincinnati Electronics designs and manufactures a range of infrared (IR) detectors, imaging sensors, missile warning systems, space launch vehicle products and spacecraft electronics;
- All of the outstanding stock of the Canadian Navigation Systems and Space Sensors System business

of Northrop Grumman on December 30, 2004, for \$65,000 in cash. The business was renamed L-3 Electronics Systems (LES). LES designs, develops and integrates electronic products and systems for aviation and ground vehicles, primarily in Canada and the United States; and

- AVISYS, Inc., the General Electric Driver Development (GEDD) business, Bay Metals and Fabrication, Inc., BAI Aerosystems (BAI), certain video security product lines of Sarnoff Corporation and D.P. Associates, Inc. for an aggregate purchase price of \$72,733 in cash, plus additional consideration, expected not to exceed \$31,500, which is contingent upon the financial performance for certain of these acquired businesses for the years ending December 31, 2005 and 2006.

2003 Business Acquisitions

Vertex Aerospace. On December 1, 2003, the Company acquired Vertex Aerospace LLC (Vertex). In May of 2004, the Company and the seller of Vertex Aerospace agreed to a final purchase price of \$664,750, based on the closing date net assets of Vertex Aerospace. The final purchase price, excluding acquisition costs, represents an \$11,500 increase to the contractual consideration paid prior to May of 2004. Based on the final purchase price allocation for Vertex, goodwill of \$498,643 was assigned to the Aircraft Modernization, O&M and Products segment and approximately \$440,362 is expected to be deductible for income tax purposes. Vertex is a leading provider of aerospace and other technical services to the U.S. Department of Defense and other U.S. Government agencies. Vertex's services include logistics support, modernization and maintenance for fixed and rotary wing aircraft, supply chain management and pilot training. Vertex's engineering and technical staff support tactical, cargo and utility aircraft and other defense-related platforms.

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The table below presents a summary of the final purchase price allocation for Vertex, which includes the final appraisals and other valuations of fair values of the assets acquired and liabilities assumed on the closing date of the acquisition (December 1, 2003).

Cash	\$ 2,187
Contracts in process	163,494
Deferred income taxes	14,059
Other current assets	1,490
Property, plant and equipment	28,563
Goodwill	498,643
Intangible assets	49,335
Deferred income taxes	939
Total assets acquired	<u>758,710</u>
Current liabilities	79,624
Long-term liabilities	11,114
Total liabilities assumed	<u>90,738</u>
Net assets acquired	<u>\$ 667,972</u>

During 2003, in separate transactions, the Company also acquired five businesses for an aggregate consideration of \$353,611 in cash, plus acquisition costs. These acquisitions were financed with cash on hand. Based on the final purchase price allocations, the goodwill recognized for these business acquisitions was \$315,582, of which \$300,631 is expected to be deductible for income tax purposes. Goodwill of \$44,603 was assigned to the Secure Communications & ISR segment, \$246,430 was assigned to the Aircraft Modernization, O&M and Products segment and \$24,549 was assigned to the Specialized Products segment. The Company completed the business acquisitions listed below during 2003:

- Certain defense and aerospace assets of IPICOM, Inc. (IPICOM) on December 10, 2003. This acquisition adds innovative optical networking technology to the Company's existing and growing ISR and secure communications businesses;
- The net assets of the Military Aviation Services (MAS) business of Bombardier, Inc. on October 31, 2003. MAS provides a full range of technical services in the areas of aircraft maintenance, repair and upgrade for military aircraft, and the refurbishment and modernization of selected commercial aircraft. Its customers include the Canadian Armed Forces, the DoD, aerospace and defense prime contractors and foreign military organizations;
- All of the outstanding common stock of Klein Associates, Inc. (Klein), a business unit of OYO Corporation of Japan, on September 30, 2003. Klein designs, manufactures and supports side-scan sonar, sub-bottom profilers and related instruments and accessories for undersea search and survey, including intrusion detection systems for port security applications. Klein provides complimentary product capabilities, which the Company has integrated into L-3's port and maritime security systems offerings. Klein is also synergistic with the Company's acoustic undersea warfare products;
- All of the outstanding common stock of Aeromet, Inc. (Aeromet), on May 30, 2003. Aeromet designs, develops and integrates infrared and optical systems for airborne ISR. The acquisition advances the Company's strategy to expand its electro-optical and infrared product lines and provides the Company with the ability to apply Aeromet's technology to L-3's current ISR products; and

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- All of the outstanding common stock of the avionics systems (Avionics Systems) business of Goodrich Corporation, on March 28, 2003. Avionics Systems develops and manufactures innovative avionics solutions for substantially all segments of the aviation market, and sells its products to the military, business jet, general aviation, rotary wing aircraft and air transport markets.

2002 Business Acquisitions

Aircraft Integration Systems. On March 8, 2002, the Company acquired the assets of Aircraft Integration Systems (AIS), a division of Raytheon Company (Raytheon), for approximately \$1,148,700 in cash, which includes \$1,130,000 for the original contract purchase price, and an increase to the contract purchase price of approximately \$18,700 related to additional net assets received at closing, plus acquisition costs. Following the acquisition, the Company changed AIS's name to L-3 Communications Integrated Systems (IS). The purchase price is subject to adjustment based on the IS closing date net tangible book value, as defined in the asset purchase agreement. Based on the purchase price allocation for IS, the goodwill recognized was \$765,879, of which \$514,728 is expected to be deductible for income tax purposes. Goodwill of \$520,798 was assigned to the Secure Communications & ISR segment and \$245,081 was assigned to the Aircraft Modernization, O&M and Products segment. The Company acquired IS because it is a long-standing supplier of critical communication and signal intelligence and unique sensor systems for special customers within the U.S. Government.

The Company is continuing its discussions with Raytheon regarding the adjustment of the purchase price for the acquisition of AIS. The AIS purchase price submitted by Raytheon to the Company amounted to approximately \$1,163,000. The Company believes that, in accordance with the terms of the AIS asset purchase agreement concerning the closing date balance sheet, the purchase price for AIS submitted by Raytheon should be reduced by \$100,000 to \$1,063,000. In accordance with the asset purchase agreement, the Company and Raytheon are in the formal process of settling the disagreement and engaging a neutral accountant to arbitrate the final purchase price. Any amount received by the Company for a reduction to the AIS purchase price will be recorded as a reduction to goodwill.

During 2002, in separate transactions, the Company also acquired ten businesses for an aggregate consideration of \$572,735, plus acquisition costs. Based on the final purchase price allocations, the goodwill recognized for the business acquisitions was \$412,237, of which \$76,193 is expected to be deductible for income tax purposes. Goodwill of \$36,435 was assigned to the Secure Communications & ISR segment, \$110,376 was assigned to the Training, Simulation & Government Services segment and \$265,426 was assigned to the Specialized Products segment. The Company completed the business acquisitions listed below during 2002.

- All of the outstanding common stock of the detection systems business of PerkinElmer (Detection Systems) on June 14, 2002. Detection Systems offers X-ray screening for several major security applications, including: (1) aviation systems for checked and oversized baggage, break bulk cargo and air freight; (2) port and border applications including pallets, break bulk and air freight; and (3) facility protection, such as parcels, mail and cargo. Detection Systems has a broad range of systems and technology. Detection Systems' customer base includes major airlines and airports, a number of domestic agencies, such as the U.S. Customs Service, U.S. Marshals Service, U.S. Department of Agriculture and U.S. Department of State, and international authorities throughout Europe, Asia and South America;
- All of the outstanding common stock of Telos Corporation (Telos), a business incorporated in California, which provides software development for command, control and communications and other related services for military and national security requirements, on July 19, 2002;

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- All of the outstanding common stock of ComCept, Inc. (ComCept), a company with network-centric warfare capabilities, including requirements development, modeling, simulation, communications and systems development and integration for ISR, on July 31, 2002;
- All of the outstanding common stock of Technology, Management and Analysis Corporation (TMA), a provider of professional services to the DoD, primarily in support of the Naval surface and combat fleet, on September 23, 2002. The core competencies of TMA include engineering, logistics, ship test and trials, network engineering and support and hardware and software products;
- The net assets of Northrop Grumman's Electron Devices and Displays-Navigation Systems-San Diego businesses on October 25, 2002. Electron Devices is a supplier of microwave power devices to major prime contractors on key military programs, including missile seekers, aircraft navigation and landing systems, airborne and ground radar and electronic warfare and communications systems. Following the acquisition, the Company changed the name of Electron Devices to L-3 Communications Electron Devices (Electron Devices). Displays-Navigation Systems is a supplier of ruggedized displays and computer and electronic systems for both military and commercial applications. Following the acquisition, the Company changed the name of Displays-Navigation Systems to L-3 Communications Ruggedized Command and Control Solutions (Ruggedized Command & Control);
- All of the outstanding common stock of Wolf Coach, Inc. (Wolf Coach), a producer of mobile communications vehicles, which are sold to customers in the television industry, the military and to the homeland defense market, on November 1, 2002. The acquisition is subject to additional purchase price not to exceed \$1,350 which is contingent upon the financial performance of Wolf Coach for the fiscal year ending October 31, 2005. Any such additional consideration will be accounted for as goodwill;
- All of the outstanding common stock of International Microwave Corporation (IMC), a global communications company that provides wireless communications, network support services,

information technology, defense communications and enhanced surveillance systems, on November 8, 2002;

- All of the outstanding common stock of Westwood Corporation (Westwood), a supplier of shipboard power control, switchgear and power distribution systems to the United States Navy, Army, Air Force and Coast Guard, on November 13, 2002;
- All of the outstanding common stock of Wescam Inc. (Wescam), a designer and manufacturer of systems for defense applications that capture images from mobile platforms and transmit them in real time to tactical command centers for interpretation and for commercial broadcast applications to production facilities; and
- All of the outstanding common stock of Ship Analytics, Inc. (Ship Analytics), a producer of crisis management software that provides command and control for homeland security applications, on December 19, 2002. Ship Analytics also designs, manufactures and operates real-time simulation systems for critical shipboard operations for commercial maritime and naval customers. The acquisition is subject to additional purchase price not to exceed \$4,500, which is contingent upon the financial performance of Ship Analytics for the year ending December 31, 2005. Any such additional consideration will be accounted for as goodwill.

Additionally, during the years ended December 31, 2004, 2003 and 2002, the Company purchased other businesses, which, individually and in the aggregate, were not material to the Company's consolidated results of operations, financial position or cash flows in the year acquired.

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Substantially all of the acquisitions were initially financed with cash on hand or borrowings under the Company's bank credit facilities.

All of the business acquisitions are included in the Company's results of operations from their respective effective dates of acquisition. The assets and liabilities recorded in connection with the purchase price allocations for the acquisitions of Beamhit, Brashear, AVISYS, GEDD, Bay Metals Infrared Products, Cincinnati Electronics, LES, D.P. Associates and BAI, all of which were acquired in 2004, are based upon preliminary estimates of fair values for contracts in process, inventories, estimated costs in excess of estimated contract value to complete contracts in process in a loss position, identifiable intangibles, goodwill, plant and equipment, and deferred income taxes. Actual adjustments will be based on the final purchase prices, including the payment of contingent consideration and final appraisals and other analyses of fair values, which are in process. The Company expects to complete the preliminary purchase price allocations in 2005. The Company does not expect the differences between the preliminary and final purchase price allocations for these acquisitions to be material.

Unaudited Pro Forma Statement of Operations Data

Assuming the business acquisitions the Company completed during 2004 occurred on January 1, 2004, the unaudited pro forma sales, net income and diluted earnings per share would have been approximately \$7,184,700, \$381,100 and \$3.32, respectively, for the year ended December 31, 2004.

Assuming the business acquisitions the Company completed during 2004 and 2003 occurred on January 1, 2003, the unaudited pro forma sales, net income and diluted earnings per share would have been approximately \$6,160,800, \$291,200 and \$2.74, respectively, for the year ended December 31, 2003.

Assuming the business acquisitions the Company completed during 2003 and 2002 occurred on January 1, 2002, the unaudited pro forma sales, income before cumulative effect of a change in accounting principle, net income and diluted earnings per share would have been approximately \$5,474,500, \$198,500, \$174,100 and \$1.74, respectively, for the year ended December 31, 2002.

The pro forma results disclosed in the preceding paragraphs are based on various assumptions and are not necessarily indicative of the results of operations that would have occurred had the Company completed the acquisitions on January 1, 2002, January 1, 2003 and January 1, 2004.

Business Acquisitions Completed After the Balance Sheet Date

On February 3, 2005, the Company acquired substantially all of the Marine Controls division of CAE. The remaining business operations of the Marine Controls division will be acquired following the receipt of required approvals. On February 25, 2005, the Company acquired the Propulsion Systems business unit of General Dynamics. On February 28, 2005, the Company acquired the Electron Dynamic Devices business of the Boeing Company. The aggregate purchase price paid in cash for these business acquisitions was \$471,807. The Company financed these acquisitions using cash on hand.

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(Dollars in thousands, except per share data)**

4. Contracts in Process

The components of contracts in process are presented in the table below. The unbilled contract receivables, inventoried contract costs and unliquidated progress payments are principally related to contracts with the U.S. Government and prime contractors or subcontractors of the U.S. Government.

	December 31,	
	2004	2003
Billed receivables, less allowances of \$16,541 and \$25,221	\$ 781,931	\$ 637,254
Unbilled contract receivables	810,720	676,604
Less: unliquidated progress payments	(179,276)	(193,672)
Unbilled contract receivables, net	631,444	482,932
Inventoried contract costs, gross	432,741	353,247
Less: unliquidated progress payments	(50,927)	(17,624)
Inventoried contract costs, net	381,814	335,623
Inventories at lower of cost or market	183,838	159,539
Total contracts in process	<u>\$ 1,979,027</u>	<u>\$ 1,615,348</u>

Unbilled Contract Receivables. Unbilled contract receivables represent accumulated incurred costs and earned profits on contracts that have been recorded as sales, which have not yet been billed to customers. The majority of unbilled contract receivables arise from the cost-to-cost percentage-of-completion (POC) method, which is used to record sales on certain fixed-price contracts as costs are incurred at amounts equal to the ratio of cumulative costs incurred to total estimated costs at completion, multiplied by the total estimated contract revenue. Unbilled contract receivables from fixed price-type contracts are converted to billed receivables when amounts are invoiced to customers according to contractual billing terms, which generally occur when deliveries or other performance milestones are completed. To a lesser extent, unbilled contract receivables also arise from cost reimbursable-type contracts and time & material-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 for customers. The Company believes that approximately 89% of the unbilled contract receivables at December 31, 2004 will be billed and collected within one year.

Unliquidated Progress Payments. Unliquidated progress payments arise from fixed price-type contracts with the U.S. Government that contain progress payment clauses, and represent progress payment invoices which have been collected in cash, but have not yet been liquidated. Progress payment invoices are billed to the customer as contract costs are incurred at an amount generally equal to 75% to 80% of incurred costs. Unliquidated progress payments are liquidated as deliveries or other contract performance milestones are completed, at an amount equal to a percentage of the contract sales price for the items delivered or work performed, based on a contractual liquidation rate. Therefore, unliquidated progress payments are a contra asset account, and are classified against unbilled contract receivables if revenue for the underlying contract is recorded using the cost-to-cost POC method, and against inventoried contract costs if revenue is recorded using the units-of-delivery POC method.

Inventoried Contract Costs. In accordance with SOP 81-1 and the AICPA Audit and Accounting Guide, *Audits of Federal Government Contractors*, the Company's Inventoried Contract Costs include selling, general and administrative (SG&A) costs, independent research and development (IRAD) costs and bid and proposal (B&P) costs allocated to U.S. Government contracts (revenue arrangements) for which the U.S. Government is the end customer, because they are reimbursable indirect contract costs on

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
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revenue arrangements with the U.S. Government, pursuant to U.S. Government procurement regulations. The Company accounts for SG&A, IRAD and B&P costs allocated to U.S. Government contracts as product costs, instead of period expenses, and charges them to costs of sales when sales are recognized. Therefore, such allocated indirect costs are included in inventoried contract costs prior to the recognition of cost of sales for the related revenue arrangement (contract).

The table below presents a summary of SG&A, IRAD and B&P costs included in inventoried contract costs and the changes to them, including amounts used in the determination of costs and expenses for "Contracts, primarily U.S. Government." The cost data in the table below does not include the SG&A and research and development expenses for the Company's businesses that are primarily not U.S. government contractors, which are separately presented on the statements of operations under costs and expenses for "Commercial, primarily products" and are expensed as incurred.

	Year Ended December 31,		
	2004	2003	2002
Amounts included in inventoried contract costs at beginning of period	\$ 38,024	\$ 52,253	\$ 19,970
Add: Amounts included in acquired inventoried contract costs	5,555	—	34,417
Amounts incurred during the period ⁽¹⁾	582,933	485,694	430,622
Less: Amounts charged to costs and expenses during the period	(582,848)	(499,923)	(432,756)
Amounts included in inventoried contract costs at end of period	<u>\$ 43,644</u>	<u>\$ 38,024</u>	<u>\$ 52,253</u>

(1) Incurred costs include IRAD and B&P costs of \$149,388 for 2004, \$129,366 for 2003, and \$124,248 for 2002.

Inventories at Lower of Cost or Market. The table below presents the components of Inventories at lower of cost or market at December 31, 2004 and 2003.

	2004	2003
Finished goods	\$ 42,577	\$ 44,254
Work in process	51,302	49,559
Raw materials, components and sub-assemblies	89,959	65,726
Total	<u>\$ 183,838</u>	<u>\$ 159,539</u>

5. Goodwill and Other Intangible Assets

Effective January 1, 2002, the Company ceased recording goodwill amortization expense and began testing goodwill for impairment based on estimated fair values at the beginning of the year using a discounted cash flows valuation. Based on the estimated fair values of the Company's reporting units as of January 1, 2002, the goodwill for certain space and broadband commercial communications businesses included in the Specialized Products segment was impaired. In the first quarter of 2002, the Company completed its valuation of the assets and liabilities for these businesses and recorded an impairment charge of \$24,370, net of a \$6,428 income tax benefit. The impairment charge was recorded as a cumulative effect of a change in accounting principle effective January 1, 2002, in accordance with the adoption provisions of SFAS No. 142.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued) (Dollars in thousands, except per share data)

Goodwill. The table below presents the changes in goodwill allocated to each of our reportable segments during the year ended December 31, 2004.

	Secure Communications & ISR	Training, Simulation & Government Services	Aircraft Modernization, O&M and Products	Specialized Products	Consolidated Total
Balance January 1, 2004	\$ 726,880	\$ 511,651	\$ 1,350,818	\$ 1,063,087	\$ 3,652,436
Business acquisitions	193,739	52,414	78,300	77,925	402,378
Balance December 31, 2004	<u>\$ 920,619</u>	<u>\$ 564,065</u>	<u>\$ 1,429,118</u>	<u>\$ 1,141,012</u>	<u>\$ 4,054,814</u>

During the year ended December 31, 2004, goodwill was increased by a total of \$402,378, which was comprised of (i) \$366,529 for business acquisitions completed during the year ended December 31, 2004, (See Note 3) (ii) \$36,034 for increases to purchase price payments for certain business acquisitions completed prior to January 1, 2004, related to the final closing date net assets and contingent purchase price adjustments or earnouts, which were resolved during the period, and (iii) a decrease of \$185 primarily related to final estimates of fair value for assets acquired and liabilities assumed in connection with business acquisitions completed prior to January 1, 2004.

Identifiable Intangible Assets. The gross carrying amount and accumulated amortization balances of the Company's identifiable intangible assets that are subject to amortization are presented in the tables below. The Company has no indefinite-lived identifiable intangible assets.

	<u>December 31, 2004</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Identifiable intangible assets that are subject to amortization:			
Customer relationships	\$ 164,041	\$ 17,709	\$ 146,332
Technology	43,595	5,303	38,292
Non-compete agreements	2,000	820	1,180
Total	<u>\$ 209,636</u>	<u>\$ 23,832</u>	<u>\$ 185,804</u>

	<u>December 31, 2003</u>		
	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Identifiable intangible assets that are subject to amortization:			
Customer relationships	\$ 154,770	\$ 6,519	\$ 148,251
Technology	14,500	2,325	12,175
Non-compete agreements	2,000	270	1,730
Total	<u>\$ 171,270</u>	<u>\$ 9,114</u>	<u>\$ 162,156</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued) (Dollars in thousands, except per share data)

The Company recorded amortization expense for its identifiable intangible assets of \$14,718 for 2004, \$6,610 for 2003 and \$1,337 for 2002. Based on gross carrying amounts at December 31, 2004, the Company's estimate for identifiable intangible assets amortization expense for the years ending December 31, 2005 through 2009 are presented in the table below.

<u>Year Ending December 31,</u>	<u>Estimated Amortization Expense</u>
2005	\$ 20,629
2006	19,978
2007	18,732

2008	16,381
2009	15,110

6. Other Current Liabilities and Other Liabilities

The components of other current liabilities are presented in the table below.

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Accrued product warranty costs	\$ 49,816	\$ 41,184
Estimated cost in excess of estimated contract value to complete contracts in process in a loss position	49,695	52,063
Accrued interest	29,871	25,898
Aggregate purchase price payable for acquired businesses	9,648	28,331
Notes payable and capital lease obligations	—	9,312
Deferred revenues	5,019	7,850
Current portion of net deferred gains from terminated interest rate swap agreements	3,284	4,246
Other	43,080	47,738
Total other current liabilities	<u>\$ 190,413</u>	<u>\$ 216,622</u>

The components of other liabilities are presented in the table below.

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Non-current portion of net deferred gains from terminated interest rate swap agreements	\$ 21,928	\$ 29,224
Accrued workers compensation	19,401	14,549
Long-term deferred tax liabilities	7,990	—
Fair value of interest rate swap agreements	2,036	—
Notes payable and capital lease obligations	13,911	1,485
Non-current portion of accrued product warranty costs	—	4,630
Other non-current liabilities	63,467	51,763
Total other liabilities	<u>\$ 128,733</u>	<u>\$ 101,651</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued) (Dollars in thousands, except per share data)

The table below presents the changes in the Company's accrued product warranty costs for the year ended December 31, 2004.

Balance at January 1, 2004	\$ 45,814
Acquisitions during this period	3,003
Accruals for product warranties issued during the period	19,856
Accruals for product warranties existing before January 1, 2004 ⁽¹⁾	3,518
Settlements made during the period	(22,375)
Balance at December 31, 2004	<u>\$ 49,816</u>

(1) Represents changes to estimated product warranty costs related to sales recognized prior to January 1, 2004.

7. Property, Plant and Equipment

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
Land	\$ 35,399	\$ 35,668
Buildings and improvements	207,855	147,860
Machinery, equipment, furniture and fixtures	465,214	417,978
Leasehold improvements	143,366	138,654
Gross property, plant and equipment	851,834	740,160
Less: accumulated depreciation and amortization	(294,862)	(220,411)
Property, plant and equipment, net	<u>\$ 556,972</u>	<u>\$ 519,749</u>

Depreciation expense for property, plant and equipment was \$91,541 for 2004, \$77,340 for 2003, and \$66,230 for 2002.

8. Debt

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

	<u>December 31,</u>	
	<u>2004</u>	<u>2003</u>
L-3 Communications:		
Borrowings under Senior Credit Facilities	\$ —	\$ —
8% Senior Subordinated Notes due 2008	—	200,000

7 5/8% Senior Subordinated Notes due 2012	750,000	750,000
6 1/8% Senior Subordinated Notes due 2013	400,000	400,000
6 1/8% Senior Subordinated Notes due 2014	400,000	400,000
5 7/8% Senior Subordinated Notes due 2015	650,000	—
	<u>2,200,000</u>	<u>1,750,000</u>

L-3 Holdings:

5¼% Convertible Senior Subordinated Notes due 2009	—	298,370
4% Senior Subordinated Convertible Contingent Debt Securities due 2011	—	420,000
Principal amount of long-term debt	<u>2,200,000</u>	<u>2,468,370</u>
Less: Unamortized discounts	(8,158)	(11,070)
Fair value of interest rate swap agreements	(2,036)	—
Carrying amount of long-term debt	<u>\$ 2,189,806</u>	<u>\$ 2,457,300</u>

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L-3 Communications

At December 31, 2004, the Company's Senior Credit Facilities were comprised of a \$500,000 five-year revolving credit facility maturing on May 15, 2006 and a \$250,000 364-day revolving facility. The 364-day revolving credit facility expired on February 22, 2005.

At December 31, 2004, available borrowings under the Company's Senior Credit Facilities were \$677,521, after reductions for outstanding letters of credit of \$72,479. There were no outstanding borrowings under the Senior Credit Facilities at December 31, 2004.

On March 9, 2005, the Company entered into a new five-year senior revolving credit facility (the New Senior Credit Facility) maturing on March 9, 2010 and allowing for total aggregate borrowings of up to \$1,000,000. At March 9, 2005, available borrowings under our new senior credit facility were approximately \$906,000, after reductions for outstanding letters of credit of approximately \$94,000. At the time the Company entered into this facility, the existing senior credit facility was terminated.

Borrowings under the New Senior Credit Facility bear interest, at L-3 Communications' option, at either: (i) a "base rate" equal to the higher of 0.50% per annum above the latest federal funds rate and the Bank of America "prime rate" (as defined) plus a spread ranging from 0.75% to 0.00% per annum depending on L-3 Communications' Debt Rating at the time of determination or (ii) a "LIBOR rate" (as defined) plus a spread ranging from 1.75% to 0.625% per annum depending on L-3 Communications' Debt Rating at the time of determination. The Debt Rating is based on the ratings as determined by Standard & Poor's Ratings Services, Moody's Investors Service, Inc. and Fitch Ratings of the Company's non-credit-enhanced, senior unsecured long-term debt.

L-3 Communications pays commitment fees calculated on the daily amounts of the available unused commitments under the New Senior Credit Facility at a rate ranging from 0.375% to 0.125% per annum, depending on L-3 Communications' Debt Rating in effect at the time of determination. L-3 Communications pays letter of credit fees calculated at a rate ranging from 1.3125% to 0.46875% per annum for performance and commercial letters of credit and 1.75% to 0.625% for financial letters of credit, in each case depending on L-3 Communications' Debt Rating at the time of determination.

On November 12, 2004, L-3 Communications sold \$650,000 of 5 7/8% Senior Subordinated Notes due January 15, 2015 (2004 Notes) with interest payable semi-annually on January 15 and July 15 of each year commencing January 15, 2005. The net cash proceeds from this offering amounted to approximately \$639,000 after deducting commissions and other offering expenses and were used to redeem the Company's 8% Senior Subordinated Notes due 2008 and to increase cash and cash equivalents. The 2004 Notes are general unsecured obligations of L-3 Communications and are subordinated in right of payment to all existing and future senior debt of L-3 Communications. On or after January 15, 2010, the 2004 Notes are subject to redemption at any time, at the option of L-3 Communications, in whole or in part, at redemption prices (plus accrued and unpaid interest) starting at 102.938% of the principal amount (plus accrued and unpaid interest) during the 12-month period beginning January 15, 2010 and declining annually to 100% of principal (plus accrued and unpaid interest) on January 15, 2013 and thereafter. Prior to January 15, 2008, L-3 Communications may redeem up to 35% of the 2004 Notes with the proceeds of certain equity offerings at a redemption price of 105.875% of the principal amount (plus accrued and unpaid interest).

On November 12, 2004, L-3 Communications initiated a full redemption of all of its outstanding \$200,000 aggregate principal amount of 8% Senior Subordinated Notes due 2008 (December 1998 Notes). Such notes were redeemed by L-3 Communications at a redemption price of 102.667% of the principal amount thereof, plus accrued and unpaid interest. This redemption was completed on December 13, 2004. In connection with the early redemption of the December 1998 Notes, the Company recorded a pre-tax

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debt retirement charge of \$4,969. The change was comprised of premiums of \$5,334 and \$2,751 to write off the remaining balance of unamortized debt issue costs relating to these notes, partially offset by a gain of \$3,116 to recognize the remaining balance of the deferred gain on the terminated interest rate swap agreements relating to these notes.

On December 22, 2003, L-3 Communications sold \$400,000 of 6 1/8% Senior Subordinated Notes due January 15, 2014 (December 2003 Notes) at a discount of \$7,372. The discount was recorded as a reduction to the principal amount of the notes and is amortized as interest expense over the term of the notes. The effective interest rate of the December 2003 Notes is 6.31% per annum. Interest is payable semi-annually on January 15 and July 15 of each year. The net cash proceeds from this offering amounted to approximately \$390,000 after deducting the discounts, commissions and other offering expenses and were used to repay \$275,000 of borrowings outstanding under the Senior Credit Facilities and to increase cash and cash equivalents. The December 2003 Notes are general unsecured obligations of L-3 Communications and are subordinated in right of payment to all existing and future senior debt of L-3 Communications. On or after January 15, 2009, the December 2003 Notes are subject to redemption at any time, at the option of L-3 Communications, in whole or in part, at redemption prices (plus accrued and unpaid interest) starting at 103.063% of the principal amount (plus accrued and unpaid interest) during the 12-month period beginning January 15, 2009 and declining annually to 100% of principal (plus accrued and unpaid interest) on January 15, 2012 and thereafter. Prior to January 15, 2007, L-3 Communications may redeem up to 35% of the December 2003 Notes with the proceeds of certain equity offerings at a redemption price of 106.125% of the principal amount (plus accrued and unpaid interest).

On May 21, 2003, L-3 Communications sold \$400,000 of 6 1/8% Senior Subordinated Notes due July 15, 2013 (May 2003 Notes) at a discount of \$1,840. The discount was recorded as a reduction to the principal amount of the notes and is amortized as interest expense over the term of the notes. The effective interest rate of the May 2003 Notes is 6.17% per annum. Interest is payable semi-annually on January 15 and July 15 of each year. The net cash proceeds from this offering amounted to approximately \$391,000 after deducting discounts, commissions and other offering expenses and were used to redeem the 8½% Senior Subordinated Notes due 2008 and to increase cash and cash equivalents. The May 2003 Notes are general unsecured obligations of L-3 Communications and are subordinated in right of payment to all existing and future senior debt of L-3 Communications. On or after July 15, 2008, the May 2003 Notes are subject to redemption at any time, at the option of L-3 Communications, in whole or in part, at redemption prices (plus accrued and unpaid interest) starting at 103.063% of the principal amount (plus accrued and unpaid interest) during the 12-month period beginning July 15, 2008 and declining annually to 100% of principal (plus accrued and unpaid interest) on July 15, 2011 and thereafter. Prior to July 15, 2006, L-3 Communications may redeem up to 35% of the May 2003 Notes with the proceeds of certain equity offerings at a redemption price of 106.125% of the principal amount (plus accrued and unpaid interest).

On May 21, 2003, L-3 Communications initiated a full redemption of all its outstanding \$180,000 aggregate principal amount of 8½% Senior Subordinated Notes due 2008 (May 1998 Notes). On June 20, 2003, L-3 Communications purchased and paid cash for all the outstanding May 1998 Notes, including accrued interest. During 2003, L-3 Communications recorded a pre-tax charge of \$11,225, comprising of premiums and other transaction costs of \$7,795 and \$3,430 to write-off the unamortized balance of debt issue costs and the deferred loss on the terminated interest rate swap agreements related to the May 1998 Notes.

In June of 2002, L-3 Communications sold \$750,000 of 7 5/8% Senior Subordinated Notes due June 15, 2012 (June 2002 Notes) with interest payable semi-annually on June 15 and December 15 of each year. The net proceeds from this offering and the concurrent sale of common stock by L-3 Holdings (see Note 10) were used to (i) repay \$500,000 borrowed on March 8, 2002, under the Company's senior subordinated

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bridge loan facility, (ii) repay the indebtedness outstanding under the Company's Senior Credit Facilities, (iii) repurchase and redeem the 10 3/8% Senior Subordinated Notes due 2007 and (iv) increase cash and cash equivalents. The June 2002 Notes are general unsecured obligations of L-3 Communications and are subordinated in right of payment to all existing and future senior debt of L-3 Communications. The June 2002 Notes are subject to redemption at any time, at the option of L-3 Communications, in whole or in part, on or after June 15, 2007 at redemption prices (plus accrued and unpaid interest) starting at 103.813% of the principal amount (plus accrued and unpaid interest) during the 12-month period beginning June 15, 2007 and declining annually to 100% of principal (plus accrued and unpaid interest) on June 15, 2010 and thereafter. Prior to June 15, 2005, L-3 Communications may redeem up to 35% of the June 2002 Notes with the proceeds of certain equity offerings at a redemption price of 107.625% of the principal amount (plus accrued and unpaid interest).

In June of 2002, L-3 Communications commenced a tender offer to purchase any and all of its \$225,000 aggregate principal amount of 10 3/8% Senior Subordinated Notes due 2007. The tender offer expired on July 3, 2002. On June 25, 2002, L-3 Communications sent a notice of redemption for all of its 10 3/8% Senior Subordinated Notes due 2007 that remained outstanding after the expiration of the tender offer. Upon sending the notice, the remaining notes became due and payable at the redemption price as of July 25, 2002. During 2002, the Company recorded a pre-tax charge of \$16,187, comprised of premiums, fees and other transaction costs of \$12,469 and \$3,718 to write-off the remaining balance of unamortized debt issue costs relating to these notes.

Depending on interest rate levels, the Company may enter into interest rate swap agreements to convert certain of its fixed interest rate debt obligations to variable interest rates, or terminate any existing interest rate swap agreements. The variable interest rate paid by the Company under the swap agreements is equal to (i) the variable rate basis, plus (ii) the variable rate spread. The table below presents the Company's interest rate swap agreement that is currently outstanding.

Inception Date	Fixed Rate Debt Obligation	Notional Amount	Variable Rate Basis	Average Variable Rate Spread	Interest Settlement Dates
March 2004	\$400,000 of 6 1/8% Senior Subordinated Notes due 2014	\$ 100,000	Six-Month USD LIBOR ⁽¹⁾	1.55%	January 15 and July 15

(1) The six-month USD LIBOR interest rate was 2.78% on December 31, 2004, 2.20% on September 30, 2004, 1.94% on June 30, 2004 and 1.16% on March 31, 2004.

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The table below presents the Company's terminated interest rate swap agreements activity through December 31, 2004.

Inception Date	Termination Date	Fixed Rate Debt Obligation	Notional Amount	Average Variable Rate Paid ⁽²⁾	Cash Proceeds Received at Termination ⁽¹⁾			December 31, 2004	
					Interest Expense Reduction ⁽³⁾	Deferred Gain (Loss) ⁽⁴⁾	Total	Cumulative Recognized Deferred Gain (Loss) ⁽⁵⁾	Balance of Unamortized Deferred Gain (Loss) ⁽⁶⁾
April 2004	September 2004	\$400,000 of 6 1/8% Senior Subordinated Notes due 2014	\$100,000	2.9%	\$ 542	\$ (542)	\$ —	\$ (15)	\$ (527)
March 2004	September 2004	\$400,000 of 6 1/8% Senior Subordinated Notes due 2014	\$100,000	3.6%	415	(415)	—	(11)	(404)
July 2003	September 2003	\$400,000 of 6 1/8% Senior Subordinated Notes due 2013	\$400,000	2.1%	2,687	8,017	10,704	1,024	6,993
March 2003	June 2003	\$750,000 of 7 5/8% Senior Subordinated Notes due 2012	\$200,000	4.4%	1,578	6,727	8,305	1,152	5,575
January 2003	March 2003	\$750,000 of 7 5/8% Senior Subordinated Notes due 2012	\$200,000	4.0%	1,202	5,238	6,440	1,015	4,223
June 2002	September 2002	\$750,000 of 7 5/8% Senior Subordinated Notes due 2012	\$200,000	4.1%	1,762	12,173	13,935	2,821	9,352
November 2001	August 2002	\$180,000 of 8% Senior Subordinated Notes due 2008	\$180,000	5.3%	1,186	(559)	627	(559)	—
July 2001	June 2002	\$200,000 of 8% Senior Subordinated Notes due 2008	\$200,000	3.9%	3,446	5,229	8,675	5,229	—
					<u>\$ 12,818</u>	<u>\$35,868</u>	<u>\$48,686</u>	<u>\$ 10,656</u>	<u>\$ 25,212</u>

(1) Cash proceeds received at termination are included in cash from operating activities on L-3's statement of cash flows in the period received.

(2) Represents the average variable interest rate L-3 paid for the interest payment period in which the interest rate swap agreements were terminated.

(3) Represents the interest expense reduction for the interest payment period in which the interest rate swap agreements were terminated.

(4) Represents the mark-to-market value of the interest rate swap agreements at termination date, which is being amortized over the remaining term of the underlying debt instrument.

(5) Represents the cumulative amount of deferred gain (loss) recognized as a reduction (increase) to interest expense through December 31, 2004.

(6) The current portion of unamortized deferred gains at December 31, 2004, aggregating \$3,284, is included in other current liabilities. The remaining \$21,928 is included in other liabilities.

L-3 Holdings

On October 5, 2004, L-3 Holdings announced a full redemption of all the \$420,000 of its 4.00% Senior Subordinated Convertible Contingent Debt Securities (CODES) due 2011, which expired on Thursday, October 21, 2004. On October 21, 2004, holders of \$419,785 of the principal amount of CODES exercised their conversion rights and converted such CODES into 7,800,797 shares of L-3 Holdings common stock. The remaining \$215 of the CODES were redeemed for cash on October 25, 2004, at a redemption price of 102.0% of the principal amount, plus accrued and unpaid interest (including contingent interest) to October 25, 2004. As a result of the conversions and redemptions, L-3's principal amount of long-term debt decreased by \$418,219 and shareholders' equity increased by \$430,431, including the transfer of the related deferred tax liability of \$21,398 and unamortized debt issue costs of \$8,960 to additional paid-in-capital.

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On December 22, 2003, L-3 Holdings announced a full redemption of \$300,000 of its 5.25% Convertible Senior Subordinated Notes due 2009 (Convertible Notes), which expired on January 9, 2004. At December 31, 2003, holders of approximately \$1,630 of the Convertible Notes had exercised their conversion rights and converted such notes into 40,000 shares of L-3 Holdings common stock. On January 9, 2004, holders of \$298,183 of the Convertible Notes exercised their conversion rights and converted such notes into 7,317,327 shares of L-3 Holdings common stock. The remaining \$187 of Convertible Notes were redeemed on January 12, 2004 for cash. As a result of these conversions and redemptions, L-3's principal amount of long-term debt decreased by \$298,370 and shareholders' equity increased by \$292,319 in January 2004 compared to December 31, 2003.

Covenants

The New Senior Credit Facilities and Senior Subordinated Notes indentures contain financial and other restrictive covenants that limit, among other things, the ability of the Company to borrow additional funds, incur liens, make investments, merge or consolidate, dispose of assets, or pay dividends. The Company is in compliance with those covenants in all material respects. The Company's New Senior Credit Facility contains covenants that require that (i) the Company's Consolidated Leverage Ratio be less than or equal to 4.0 to 1.0, (ii) the Company's Consolidated Senior Leverage Ratio be less than or equal to 3.0 to 1.0 and (iii) the Company's Consolidated Interest Coverage Ratio be greater than or equal to 3.0 to 1.0. Calculations of the Consolidated Leverage Ratio, Consolidated Senior Leverage Ratio and Consolidated Interest Coverage Ratio are to take into account acquisitions on a pro forma basis as if they had occurred at the beginning of the applicable period.

The Consolidated Leverage Ratio is defined as the ratio of Consolidated Funded Indebtedness, minus the lesser of actual unrestricted domestic cash balances in excess of \$25,000 and \$250,000, to Consolidated EBITDA. Consolidated Funded Indebtedness is equal to the sum of (1) outstanding indebtedness for borrowed money or for preferred stock accounted for as indebtedness (which is referred to under the New Senior Credit Facility as "disqualified preferred stock"), (2) the deferred purchase price of property or services, (3) capitalized lease obligations and (4) outstanding indebtedness of L-3 Holdings guaranteed by L-3 Communications or its

subsidiaries. Consolidated EBITDA is equal to consolidated net income of L-3 Communications (excluding (A) impairment losses incurred on goodwill and other intangible assets or on debt and equity investments, (B) gains or losses incurred on the retirement of debt, (C) extraordinary gains and losses, (D) gains and losses in connection with asset dispositions, and (E) non-cash gains or losses on discontinued operations) for the applicable period, plus consolidated interest expense (including consolidated interest expense of L-3 Holdings for indebtedness guaranteed by L-3 Communications and its subsidiaries), income taxes, depreciation and amortization expense and non-cash stock-based compensation expenses.

The Consolidated Senior Leverage Ratio is defined as the ratio of Consolidated Funded Indebtedness, minus subordinated debt of L-3 Communications and indebtedness of L-3 Holdings that is guaranteed by L-3 Communications on a subordinated basis, to Consolidated EBITDA. The Consolidated Interest Coverage Ratio is defined as the ratio of Consolidated EBITDA to cash interest expense of L-3 Communications and its subsidiaries plus cash interest expense of L-3 Holdings with respect to indebtedness guaranteed by L-3 Communications or any of its subsidiaries.

In addition, the Senior Subordinated Notes indentures contain covenants that restrict the ability of L-3 Communications to incur indebtedness and issue capital stock that matures or is redeemable 91 days or less after the maturity date of such series of notes, and the ability of its restricted subsidiaries to incur indebtedness or issue preferred stock, unless the Company's Fixed Charge Coverage Ratio would have been at least 2.0 to 1.0 on a pro forma basis. The covenants are subject to several exceptions, including an exception for indebtedness under credit facilities up to a specified amount. The Fixed Charge Coverage

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Ratio is defined as the ratio of Consolidated Cash Flow to Fixed Charges of L-3 Communications and its restricted subsidiaries. Consolidated Cash Flow is equal to the consolidated net income of L-3 Communications, plus extraordinary losses, net losses realized upon an asset sale, income taxes of L-3 Communications and its restricted subsidiaries, consolidated interest expense of L-3 Communications and its restricted subsidiaries (whether or not capitalized), depreciation and amortization expense of L-3 Communications and its restricted subsidiaries, and other non-cash expenses of L-3 Communications and its restricted subsidiaries, minus non-cash items not in the ordinary course of business that increased consolidated net income. Fixed Charges are equal to consolidated interest expense of the Company and its restricted subsidiaries (whether or not capitalized), third-party interest expense guaranteed or secured by the Company and its restricted subsidiaries and preferred stock dividends of the Company and its restricted subsidiaries (other than dividends payable in capital stock of L-3 Communications), grossed up for taxes. Calculations of the Fixed Charge Coverage Ratio are to take into account incurrence, assumption or redemption of indebtedness and acquisitions on a pro forma basis as if they had occurred at the beginning of the applicable period and are to exclude Consolidated Cash Flow from discontinued operations and businesses disposed of and related Fixed Charges under non-continuing obligations.

The New Senior Credit Facility limits the ability of L-3 Communications to pay dividends to and make investments in L-3 Holdings. However, the New Senior Credit Facility permits L-3 Communications to:

- fund payments of interest on indebtedness of L-3 Holdings and to fund payments of dividends on disqualified preferred stock issued by L-3 Holdings, so long as (1) any such indebtedness or disqualified preferred stock is guaranteed by L-3 Communications and (2) the proceeds received by L-3 Holdings from the issuance of such indebtedness or disqualified preferred stock have been invested by L-3 Holdings in L-3 Communications;
- fund payments and prepayments of principal of indebtedness of L-3 Holdings and to fund optional and mandatory redemptions of disqualified preferred stock issued by L-3 Holdings, so long as (1) any such indebtedness or disqualified preferred stock is guaranteed by L-3 Communications and (2) the amount of such fundings does not exceed the aggregate amount of investments made by L-3 Holdings in L-3 Communications with the proceeds from any issuance of indebtedness or disqualified preferred stock by L-3 Holdings after March 9, 2005 that is guaranteed by L-3 Communications;
- pay regularly scheduled dividends on disqualified preferred stock issued by L-3 Communications;
- redeem disqualified preferred stock issued by L-3 Communications so long as the amount of such redemptions does not exceed the aggregate proceeds received by L-3 Communications from the issuance of disqualified preferred stock;
- pay other dividends on and make other redemptions of its equity interests (including for the benefit of L-3 Holdings) and make other investments in L-3 Holdings, so long as no default or event of default has occurred and is continuing, up to an aggregate amount of \$1,000,000, increased (or decreased) quarterly by an amount equal to 50% of the consolidated net income (or deficit) of L-3 Communications for the quarter, plus (1) 100% of the proceeds from any issuance of capital stock (other than disqualified preferred stock) by L-3 Holdings after March 9, 2005 if those proceeds were invested in L-3 Communications, plus (2) 100% of the proceeds from any issuance of indebtedness or disqualified preferred stock by L-3 Holdings after March 9, 2005 if those proceeds were invested in L-3 Communications and the indebtedness or disqualified preferred stock is not guaranteed by L-3 Communications, plus (3) 100% of the proceeds of any issuances of capital stock (other than disqualified preferred stock) by L-3 Communications after March 9, 2005, minus (4) the aggregate amount of subordinated debt of L-3 Communications

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prepaid after March 9, 2005 (other than in connection with a refinancing) in excess of the aggregate proceeds received from the issuance of subordinated debt by L-3 Communications after March 9, 2005 (other than in connection with a refinancing).

The New Senior Credit Facility contains cross default provisions that are triggered when a payment default occurs or certain other defaults occur that would allow the acceleration of indebtedness, guarantee obligations or certain other agreements of L-3 Communications or its subsidiaries in an aggregate amount of at least \$40,000 and those defaults (other than payment defaults and defaults that have resulted in acceleration) have not been cured after 10 days. The Senior Subordinated Notes indentures contain cross acceleration provisions that are triggered when holders of the indebtedness of L-3 Holdings, L-3 Communications or their restricted subsidiaries (or the payment of which is guaranteed by such entities) accelerate at least \$10,000 in aggregate principal amount of those obligations.

In addition, the Senior Subordinated Notes indentures contain provisions that limit the ability of L-3 Communications to pay dividends to L-3 Holdings and make investments in L-3 Holdings, subject to exceptions. The indentures permit L-3 Communications to make such restricted payments so long as it would be able to incur at least one dollar of additional indebtedness under the Fixed Charge Coverage Ratio test described above and meets other conditions. Assuming the New Senior Credit Facility had been in effect at December 31, 2004, the restricted payments provisions therein would have been more restrictive as of such date than the other conditions contained in the Senior Subordinated Notes indentures.

Subordination and Guarantees

The borrowings under the New Senior Credit Facility are guaranteed by L-3 Holdings and by substantially all of the material wholly-owned domestic subsidiaries of L-3 Communications on a senior basis. The payment of principal and premium, if any, and interest on the Senior Subordinated Notes are unconditionally guaranteed, on an unsecured senior subordinated basis, jointly and severally, by substantially all of L-3 Communications' restricted subsidiaries other than its foreign subsidiaries. The guarantees of the Senior Subordinated Notes rank pari passu with one another and are junior to the guarantees of the New Senior Credit Facility.

In the event that the long-term debt rating of L-3 Communications is reduced below BBB-, or the equivalent, by two of the three rating agencies, Standard & Poor's Ratings Services, Moody's Investors Service, Inc. or Fitch Ratings, L-3 Holdings will be required, within 45 business days, to pledge 100% of the capital stock of L-3 Communications, and L-3 Communications and each subsidiary guarantor will be required to pledge 100% of the capital stock of each of their material wholly-owned domestic subsidiaries and 65% of their material wholly-owned foreign subsidiaries, in favor of the lenders under the New Senior Credit Facility.

9. Financial Instruments

Fair Value of Financial Instruments. At December 31, 2004 and 2003, the Company's financial instruments consisted primarily of cash and cash equivalents, billed receivables, notes receivable, equity securities, trade accounts payable, customer advances, Senior Credit Facilities, Senior Subordinated Notes, Convertible Notes, CODES, foreign currency forward contracts, interest rate swap agreements and embedded derivatives related to the issuance of the CODES. The carrying amounts of cash and cash equivalents, billed receivables, trade accounts payable, Senior Credit Facilities, and customer advances are representative of their respective fair values because of the short-term maturities or expected settlement dates of these instruments. The Company's investments in nonreadily marketable securities are stated at estimated fair value, which is generally equal to historical cost, except for those that have

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experienced other-than-temporary impairments. The Senior Subordinated Notes are registered, unlisted public debt which are traded in the over-the-counter market and their fair values are based on quoted trading activity. The fair values of the Convertible Notes and CODES are based on quoted prices for the same or similar issues. The fair values of foreign currency forward contracts were estimated based on exchange rates at December 31, 2004 and 2003. The fair values of the embedded derivatives were estimated by discounting expected cash flows using quoted market interest rates. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the table below.

	<u>December 31,</u> <u>2004</u>	<u>2003</u>		
	<u>Carrying</u> <u>Amount</u>	<u>Estimated</u> <u>Fair Value</u>	<u>Carrying</u> <u>Amount</u>	<u>Estimated</u> <u>Fair Value</u>
Notes receivable	\$ 2,700	\$ 2,700	\$ 1,200	\$ 1,200
Investments in equity securities accounted for using the cost method	1,528	1,528	3,033	3,033
Senior Subordinated Notes	2,189,806	2,291,750	1,740,923	1,775,375
Convertible Notes	—	—	298,370	375,946
CODES	—	—	418,007	460,950
Foreign currency forward contracts	(2,121)	(2,121)	1,153	1,153
Embedded derivatives	—	—	(2,666)	(2,666)

Interest Rate Risk Management. The Company has entered into interest rate swap agreements on certain of its Senior Subordinated Notes to take advantage of variable interest rates, which are lower than the fixed rates on those notes. These swap agreements exchanged the fixed interest rate for a variable interest rate on a notional amount equal to either a portion or the entire principal amount of the related notes, were denominated in U.S. dollars and have designated maturities which occurred on the interest payment dates of the related Senior Subordinated Notes. Cash payments received from or paid to the counterparties on the interest rate swap

agreements are the difference between the amount that the fixed interest rates are greater than or less than the variable contract rates on the designated maturity dates, multiplied by the notional amounts underlying the respective interest rate swap agreements. Cash payments or receipts between the Company and counterparties were recorded as a component of interest expense. The Company manages exposure to counterparty credit risk by entering into the interest rate swap agreements only with major financial institutions that are expected to fully perform under the terms of such agreements. The notional amounts are used to measure the volume of these agreements and do not represent exposure to credit loss. See Note 8 for a table of our interest rate swap agreement that was outstanding as of December 31, 2004.

Foreign Currency Exchange Risk Management. The Company conducts its operations outside the U.S. in functional currencies other than the U.S. dollar. Additionally, some of the Company's U.S. and foreign operations have contracts with customers which are denominated in currencies other than the functional currencies of those operations. To mitigate the risk associated with certain of these contracts denominated in foreign currency, the Company has entered into foreign currency forward contracts and put options. The Company's activities involving foreign currency forward contracts and put options are designed to hedge the foreign denominated cash paid or received, primarily Canadian dollar, Euro, British Pound and U.S. dollar. The Company manages exposure to counterparty 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. The notional amounts are used to measure the volume of these contracts and do not represent exposure to foreign currency losses.

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There were no foreign currency put option contracts outstanding at December 31, 2004 and 2003. Information with respect to foreign currency forward contracts is presented in the table below.

	<u>December 31,</u> <u>2004</u>	<u>2003</u> <u>Unrealized</u> <u>Loss</u>	<u>Notional</u> <u>Amount</u>	<u>Unrealized</u> <u>Gain</u>
Foreign currency forward contracts	\$ 126,256	\$ (2,121)	\$ 71,390	\$ 1,153

10. L-3 Holdings Common Stock

In 2004, L-3 Holdings' Board of Directors declared four quarterly cash dividends each for \$0.10 per share, which aggregated \$43,418.

On February 10, 2005, L-3 Holdings' Board of Directors increased its regular quarterly cash dividend by 25% to \$0.125 per share, payable on March 15, 2005, to shareholders of record on February 22, 2005.

On June 28, 2002, L-3 Holdings sold 14,000,000 shares of its common stock in a public offering for \$56.60 per share. Upon closing, L-3 Holdings received net proceeds after deducting discounts, commissions and other offering expenses of \$766,780. The net proceeds from this sale, which were contributed to L-3 Communications, and the concurrent sale of senior subordinated notes by L-3 Communications (See Note 8) were used to (i) repay \$500,000 borrowed on March 8, 2002, under the Company's senior subordinated bridge loan facility, (ii) repay the indebtedness outstanding under the Company's Senior Credit Facilities, (iii) repurchase and redeem the 10 3/8% Senior Subordinated Notes due 2007 and (iv) increase cash and cash equivalents.

On April 23, 2002, the Company announced that its Board of Directors authorized a two-for-one stock split on all shares of L-3 Holdings common stock. The stock split entitled all shareholders of record at the close of business on May 6, 2002 to receive one additional share of L-3 Holdings common stock for every share held on that date. The additional shares were distributed to shareholders in the form of a stock dividend on May 20, 2002. Upon completion of the stock split, L-3 Holdings had approximately 80 million shares of common stock outstanding. All of L-3 Holdings' historical share and earnings per share (EPS) data have been restated to give effect to the stock split.

On April 23, 2002, the Company's shareholders approved an increase in the number of authorized shares of L-3 Holdings common stock from 100,000,000 to 300,000,000 and an increase in the number of authorized shares of L-3 Holdings preferred stock from 25,000,000 to 50,000,000.

On June 29, 2001, the Company established the L-3 Communications Corporation Employee Stock Purchase Plan (ESPP) and registered 3,000,000 shares of L-3 Holdings common stock, which may be purchased by employees of L-3 Communications Corporation, its U.S. subsidiaries and certain of its foreign subsidiaries through payroll deductions. In general, an eligible employee who participates in the ESPP may purchase L-3 Holdings' common stock at a fifteen percent discount. The Company received \$32,931, \$26,384 and \$17,478 of employee contributions for the ESPP in 2004, 2003 and 2002, respectively. These contributions were recorded as a component of shareholders' equity in the consolidated balance sheet. L-3 Holdings issued 705,178 shares in 2004, 603,599 shares in 2003 and 352,054 shares in 2002 of its common stock to the trustee of the ESPP. In January 2005, the Company issued 322,764 shares of L-3 Holdings' common stock to the trustee of the ESPP relating to contributions received during the period July 1, 2004 to December 31, 2004.

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11. Accumulated Other Comprehensive Loss

The changes in the Company's accumulated other comprehensive balances for each of the three years ended December 31, 2004 are presented in the table below.

	Foreign currency translation adjustments	Unrealized losses on securities	Unrealized gains (losses) on hedging instruments	Minimum pension liability adjustments	Accumulated other comprehensive Income (loss)
Balance at January 1, 2002	\$ (2,852)	\$ (246)	\$ (163)	\$ (20,409)	\$ (23,670)
Period change	65	—	(114)	(45,580)	(45,629)
Balance at December 31, 2002	(2,787)	(246)	(277)	(65,989)	(69,299)
Period change	(245)	—	896	(4,189)	(3,538)
Balance at December 31, 2003	(3,032)	(246)	619	(70,178)	(72,837)
Period change	7,098	246	(1,911)	(5,290)	143
Balance at December 31, 2004	<u>\$ 4,066</u>	<u>\$ —</u>	<u>\$ (1,292)</u>	<u>\$ (75,468)</u>	<u>\$ (72,694)</u>

12. L-3 Holdings Earnings Per Share

A reconciliation of basic and diluted earnings per share (EPS) is presented in the table below.

	Year Ended December 31,		
	2004	2003	2002
Basic:			
Income before cumulative effect of a change in accounting principle	\$ 381,880	\$ 277,640	\$ 202,467
Cumulative effect of a change in accounting principle, net of income taxes	—	—	(24,370)
Net income	<u>\$ 381,880</u>	<u>\$ 277,640</u>	<u>\$ 178,097</u>
Weighted average common shares outstanding	<u>107,838</u>	<u>96,022</u>	<u>86,943</u>
Basic earnings per share before cumulative effect of a change in accounting principle	<u>\$ 3.54</u>	<u>\$ 2.89</u>	<u>\$ 2.33</u>
Basic earnings per share	<u>\$ 3.54</u>	<u>\$ 2.89</u>	<u>\$ 2.05</u>
Diluted:			
Income before cumulative effect of a change in accounting principle	\$ 381,880	\$ 277,640	\$ 202,467
After-tax interest expense savings on the assumed conversion of convertible debt	<u>9,147</u>	<u>20,797</u>	<u>21,315</u>
Income before cumulative effect of a change in accounting principle, including assumed conversion of convertible debt	<u>391,027</u>	<u>298,437</u>	<u>223,782</u>
Cumulative effect of a change in accounting principle, net of income taxes	—	—	(24,370)
Net income, including assumed conversion of convertible debt	<u>\$ 391,027</u>	<u>\$ 298,437</u>	<u>\$ 199,412</u>
Common and potential common shares:			
Weighted average common shares outstanding	107,838	96,022	86,943
Assumed exercise of stock options	9,836	7,573	7,750
Assumed purchase of common shares for treasury	(6,731)	(4,888)	(4,642)
Assumed conversion of convertible debt	<u>6,429</u>	<u>15,162</u>	<u>15,165</u>
Common and potential common shares	<u>117,372</u>	<u>113,869</u>	<u>105,216</u>
Diluted earnings per share before cumulative effect of a change in accounting principle	<u>\$ 3.33</u>	<u>\$ 2.62</u>	<u>\$ 2.13</u>
Diluted earnings per share	<u>\$ 3.33</u>	<u>\$ 2.62</u>	<u>\$ 1.90</u>

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Non-Cash Reductions to Diluted EPS From New Accounting Rule. On September 30, 2004, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on EITF Issue No. 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings Per Share*, which addresses when the diluted effect of contingently convertible debt instruments should be included in diluted earnings per share (EPS). EITF 04-8 requires that contingently convertible debt instruments are to be included in the computation of diluted EPS regardless of whether the market price trigger has been met. EITF 04-8 also requires that prior period diluted EPS amounts presented for comparative purposes be restated. The Company adopted the provisions of EITF 04-8 during the 2004 fourth quarter. The impact of applying EITF 04-8 to L-3 Holdings CODES resulted in non-cash reductions to the Company's reported diluted EPS of \$0.09 from \$2.71 to \$2.62 for the year ended December 31, 2003, and \$0.03 from \$1.93 to \$1.90 for the year ended December 31, 2002. See Note 8 above for a discussion of the conversion and redemption of the CODES, which occurred during October 2004.

13. Income Taxes

Income before income taxes and cumulative effect of a change in accounting principle is summarized in the table below.

	2004	2003	2002
Domestic	\$ 558,998	\$ 404,340	\$ 295,405
Foreign	<u>37,690</u>	<u>29,473</u>	<u>18,618</u>
Income before income taxes and cumulative effect of a change in accounting principle	<u>\$ 596,688</u>	<u>\$ 433,813</u>	<u>\$ 314,023</u>

The components of the Company's current and deferred portions of the provision for income taxes are presented in the table below.

	Year Ended December 31,		
	2004	2003	2002
Current income tax provision:			
Federal	\$ 64,065	\$ 36,251	\$ 26,759
State and local	11,436	11,966	1,254
Foreign	15,898	13,209	4,451
Subtotal	91,399	61,426	32,464
Deferred income tax provision (benefit):			
Federal	108,621	87,343	63,593
State and local	16,567	9,301	11,568
Foreign	(1,779)	(1,897)	3,931
Subtotal	123,409	94,747	79,092
Total provision for income taxes	<u>\$ 214,808</u>	<u>\$ 156,173</u>	<u>\$ 111,556</u>

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A reconciliation of the statutory federal income tax rate to the effective income tax rate of the Company is presented in the table below.

	Year Ended December 31,		
	2004	2003	2002
Statutory federal income tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal income tax benefit	3.2	3.4	3.8
Foreign income taxes	(0.7)	0.7	0.2
Foreign sales corporation and extraterritorial income exclusion benefits	(1.2)	(1.5)	(1.9)
Research and experimentation and other tax credits	(1.1)	(1.9)	(2.1)
Other, net	0.8	0.3	0.5
Effective income tax rate	<u>36.0%</u>	<u>36.0%</u>	<u>35.5%</u>

The provision for income taxes excludes current tax benefits related to compensation expense deductions for income tax purposes arising from the exercise of stock options by the Company's employees, which were credited directly to shareholders' equity of \$16,657 for 2004, \$8,457 for 2003 and \$13,303 for 2002. These tax benefits reduced current income taxes payable.

The significant components of the Company's net deferred tax assets and liabilities are presented in the table below.

	December 31,	
	2004	2003
Deferred tax assets:		
Inventoried costs	\$ 36,936	\$ 29,036
Compensation and benefits	49,887	36,173
Pension and postretirement benefits	143,145	139,308
Property, plant and equipment	—	6,347
Income recognition on contracts in process	16,683	48,621
Loss carryforwards	3,783	17,184
Tax credit carryforwards	18,529	36,066
Other	43,816	25,094
Total deferred tax assets	<u>312,779</u>	<u>337,829</u>
Deferred tax liabilities:		
Goodwill and other intangible assets	153,563	84,476
Property, plant and equipment	22,012	—
Other	18,128	86
Total deferred tax liabilities	<u>193,703</u>	<u>84,562</u>
Net deferred tax assets	<u>\$ 119,076</u>	<u>\$ 253,267</u>

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The following table presents the classification of the Company's net deferred tax assets.

December 31,	
2004	2003

Current deferred tax assets	\$	127,066	\$	152,785
Long-term deferred tax assets (liabilities)		(7,990)		100,482
Total net deferred tax assets	\$	<u>119,076</u>	\$	<u>253,267</u>

At December 31, 2004, the Company's loss carryforwards included \$390 of federal net operating loss carryforwards that are subject to limitations and will expire, if unused, between 2011 and 2021, and \$58,433 of state net operating losses that will expire, if unused, between 2005 and 2021. The Company also has \$18,529 of tax credit carryforwards primarily related to U.S. federal and state research and experimentation credits and state investment tax credits that will expire, if unused, primarily beginning in 2012. The Company believes that it will generate sufficient taxable income, of the appropriate character, to utilize these loss and credit carryforwards before they expire.

The Company is subject to ongoing tax examinations in various jurisdictions, which may result in challenges to tax positions taken and, accordingly, the Company may record adjustments to provisions based on the probable outcomes of such matters. However, the Company believes that the resolution of these matters, after considering amounts accrued, will not have a material effect on its financial position, results of operations or cash flows.

14. Stock Options

In April 1999, the Company adopted the 1999 Long Term Performance Plan (1999 Plan). Awards under the 1999 Plan may be granted to any employee or to any other individual who provides services to or on behalf of the Company or any of its subsidiaries, subject to the discretion of the Compensation Committee of the Board of Directors. Awards under the 1999 Plan may be in the form of stock options, stock appreciation rights (SARs), restricted stock and other incentive awards, consistent with the 1999 Plan. In April 1997, the Company adopted the 1997 Stock Option Plan (1997 Plan). The 1997 Plan authorizes the Compensation Committee of the Board of Directors to grant stock options to key employees of the Company and its subsidiaries. Awards under both plans are in the form of L-3 Holdings common stock. At December 31, 2004, the number of shares of L-3 Holdings' common stock authorized for grant under the 1999 Plan and 1997 Plan was 23,411,630, of which 6,308,021 shares were available for awards under these plans. The price at which stock options may be granted at shall not be less than the fair market value of L-3 Holdings' common stock on the date of grant. In general, options expire after 10 years and are exercisable ratably over a three year period on the annual anniversary of the date of grant. All of the awards under the 1999 Plan and 1997 Plan granted to employees are non-qualified stock options for U.S. income tax regulations.

The Company awards shares of restricted stock of L-3 Holdings to employees under the 1999 Plan. The Company awarded 80,831 shares on January 1, 2004, 88,245 shares on January 1, 2003, and 54,958 shares on January 1, 2002. The aggregate fair values of the restricted stock awards on their grant dates were \$4,151 in 2004, \$3,963 in 2003 and \$2,473 in 2002. The restricted stock awards granted on January 1, 2004, January 1, 2003 and January 1, 2002 vest three years after the date of grant. Compensation expense charged against pre-tax earnings for these restricted stock awards was \$3,325 in 2004, \$2,975 in 2003 and \$2,134 in 2002. Shareholders' Equity has been reduced by \$3,932 at December 31, 2004 for unearned compensation on these restricted stock awards.

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The table below presents the Company's stock option activity over the past three years under the 1999 Plan and 1997 Plan.

	Number of Options <i>(in thousands)</i>	Weighted Average Exercise Price
Outstanding at January 1, 2002 (4,216 exercisable)	7,980	\$ 16.68
Options granted	2,169	52.02
Options exercised	(970)	17.99
Options cancelled	<u>(155)</u>	<u>35.62</u>
Outstanding at January 1, 2003 (5,216 exercisable)	9,024	24.71
Options granted	2,301	40.92
Options exercised	(835)	17.24
Options cancelled	<u>(406)</u>	<u>39.95</u>
Outstanding at January 1, 2004 (5,919 exercisable)	10,084	28.41
Options granted	1,665	63.98
Options exercised	(1,532)	34.07
Options cancelled	<u>(303)</u>	<u>45.37</u>
Outstanding at December 31, 2004 (6,311 exercisable)	<u>9,914</u>	<u>\$ 32.99</u>

The table below summarizes information about the Company's stock options outstanding at December 31, 2004.

Range of Exercise Prices	Outstanding			Exercisable		
	Number of Options <i>(in thousands)</i>	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options <i>(in thousands)</i>	Weighted Average Exercise Price	
\$3.24	3,147	\$ 3.24	2.5	3,147	\$ 3.24	
\$11.00	78	11.00	3.3	78	11.00	
\$16.38 – \$23.13	433	19.69	4.6	433	19.69	
\$29.00 – \$39.70	1,936	35.65	7.2	1,301	35.65	
\$45.11 – \$60.84	3,470	52.04	8.2	1,352	51.00	

\$68.16	850	68.16	9.9	—	—
Total	<u>9,914</u>	\$ 32.99	6.2	<u>6,311</u>	\$ 21.38

The weighted average fair values of awarded stock options, calculated at their dates of grant, were \$19.63 for 2004, \$13.22 for 2003 and \$18.75 for 2002. In accordance with APB 25, no compensation expense was recognized on the stock option awards because they were granted at exercise prices equal to the stock price of L-3 Holdings common stock on the grant date.

For purposes of estimating the fair value provisions of SFAS 123, the Company estimates the fair value of its stock options at the date of grant using the Black-Scholes option-pricing valuation model. The weighted average assumptions used in the valuation models are presented in the table below.

	Year Ended December 31,		
	2004	2003	2002
Expected holding period (in years)	4.2	4.0	4.0
Expected volatility	35.6%	38.3%	39.2%
Expected dividend yield	0.7%	0.2%	—
Risk-free interest rate	3.1%	2.5%	4.0%

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15. Commitments and Contingencies

Operating Leases. The Company leases certain facilities and equipment under agreements expiring at various dates through 2028. The following table presents future minimum payments under non-cancelable operating leases with initial or remaining terms in excess of one year at December 31, 2004.

	Real Estate	Equipment	Total
2005	\$ 99,812	\$ 15,860	\$ 115,672
2006	65,277	11,311	76,588
2007	57,618	7,872	65,490
2008	49,210	5,459	54,669
2009	44,386	5,114	49,500
Thereafter	165,491	52,131	217,622
Total	<u>\$ 481,794</u>	<u>\$ 97,747</u>	<u>\$ 579,541</u>

Real estate lease commitments have been reduced by minimum sublease rental income of \$8,106 due in the future under non-cancelable subleases. Leases covering major items of real estate and equipment contain renewal and/or purchase options. Rent expense, net of sublease income was \$79,401 for 2004, \$71,779 for 2003 and \$65,277 for 2002.

On December 31, 2002, the Company entered into two real estate lease agreements, as lessee, with a third-party lessor, which expire on December 31, 2005 and are accounted for as operating leases. On or before the lease expiration date, the Company can exercise options under the lease agreements to either renew the leases, purchase both properties for \$28,000, or sell both properties on behalf of the lessor (the "Sale Option"). If the Company elects the Sale Option, the Company must pay the lessor a residual guarantee amount of \$22,673 for both properties, on or before the lease expiration date, and at the time both properties are sold, the Company must pay the lessor a supplemental rent equal to the gross sales proceeds in excess of the residual guarantee amount not to exceed \$5,327. For these real estate lease agreements, if the gross sales proceeds are less than the sum of the residual guarantee amount and the supplemental rent, the Company is required to pay a supplemental rent to the extent the reduction in the fair value of the properties are demonstrated by an independent appraisal to have been caused by the Company's failure to properly maintain the properties. The aggregate residual guarantee amounts of \$22,673 are included in the future minimum payments under non-cancelable real estate operating lease payments relating to the expiration dates of such leases.

The Company has a contract to provide and operate for the U.S. Air Force (USAF) a full-service training facility, including simulator systems adjacent to a USAF base in Oklahoma. The Company acted as the construction agent on behalf of the third-party owner-lessors for procurement and construction for the simulator systems, which were completed and delivered in August 2002. On December 31, 2002, the Company, as lessee, entered into an operating lease agreement for a term of 15 years for one of the simulator systems with the owner-lessor. At the end of the lease term, the Company may elect to purchase the simulator system at fair market value, which can be no less than \$2,552 and no greater than \$6,422. If the Company does not elect to purchase the simulator system then on the date of expiration, the Company shall pay to the lessor, as additional rent, \$2,552 and return the simulator system to the lessor. The aggregate remaining non-cancelable rental payments under this operating lease are \$29,333, including the additional rent of \$2,552. On February 27, 2003, the Company, as lessee, entered into an operating lease agreement for a term of 15 years for the remaining simulation systems with the owner-lessor. At the end of the lease term, the Company may elect to purchase the simulator systems at fair market value, which can be no less than \$4,146 and no greater than \$14,544. If the Company does not elect to purchase

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the simulator systems, then on the date of expiration, the Company shall return the simulator systems to the lessor. The aggregate remaining non-cancelable rental payments under this operating lease are \$47,662.

U.S. Government Procurement Regulations. A substantial majority of the Company's revenues are generated from providing products and services under legally binding agreements, or contracts with U.S. Government customers. The 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, none of which the Company anticipates will have a material adverse effect on its consolidated financial position, results of operations or cash flows. Under U.S. Government procurement regulations, an indictment of the Company by a federal grand jury could result in the Company being suspended for a period of time from eligibility for awards of new government contracts. A conviction 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 are subject to audit and various pricing and cost controls, and include standard provisions for termination for the convenience of the U.S. Government. U.S. Government contracts and related orders are subject to cancellation if funds for contracts become unavailable or for termination for the convenience of the U.S. Government. Foreign government contracts generally include comparable provisions relating to termination for the convenience of the relevant foreign government.

Environmental Matters. Management continually assesses the Company's obligations with respect to applicable environmental protection laws. While it is difficult to determine the timing and ultimate cost to be incurred by the Company in order to comply with these laws, based upon available internal and external assessments, with respect to those environmental loss contingencies of which management is aware, the Company believes that, after considering amounts accrued there are no environmental loss contingencies that, individually or in the aggregate, would be material to the Company's consolidated results of operations. The Company accrues for these contingencies when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

In connection with the Integrated Systems business acquisition, the Company assumed responsibility for implementing certain corrective actions, required under federal law to remediate the Greenville, Texas site location, and to pay a portion of those remediation costs. The hazardous substances requiring remediation have been substantially characterized, and the remediation system has been partially implemented. The Company has estimated that its share of the remediation cost will not exceed \$2,500, and will be incurred over a period of 25 years. The Company believes that it has established adequate reserves for these costs.

Litigation Matters. Additionally, the Company has been periodically subject to litigation, claims or assessments and various contingent liabilities incidental to its businesses or assumed in connection with certain business acquisitions. With respect to those investigative actions, items of litigation, claims or assessments of which it is aware, management of the Company believes that the likelihood of loss is less than probable that after taking into account certain provisions for these matters, the ultimate resolution of any such investigative actions, items of litigation, claims or assessments will not have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company. However, as discussed below, the Company is a party to a number of material litigations, for which an adverse determination could have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

L-3 Integrated Systems and its predecessors have been involved in a litigation with Kalitta Air arising from a contract to convert Boeing 747 aircraft from passenger configuration to cargo freighters. The

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lawsuit was brought in the northern district of California on January 31, 1997. The aircraft were modified using Supplemental Type Certificates (STCs) issued in 1988 by the Federal Aviation Administration (FAA) to Hayes International, Inc. (Hayes/Pemco) as a subcontractor to GATX/Airlog Company (GATX). Between 1988 and 1990, Hayes/Pemco modified five aircraft as a subcontractor to GATX using the STCs. Between 1990 and 1994, Chrysler Technologies Airborne Systems, Inc. (CTAS), a predecessor to L-3 Integrated Systems, performed as a subcontractor to GATX and modified an additional five aircraft using the STCs. Two of the aircraft modified by CTAS were owned by American International Airways, the predecessor to Kalitta Air. In 1996, the FAA determined that the engineering data provided by Hayes/Pemco supporting the STCs was inadequate and issued an Airworthiness Directive that effectively grounded the ten modified aircraft. The Kalitta Air aircraft have not been in revenue service since that date. The matter was tried in January 2001 against GATX and CTAS with the jury finding fault on the part of GATX but rendering a unanimous defense verdict in favor of CTAS. Certain co-defendants had settled prior to trial. The U.S. Ninth Circuit Court of Appeals reversed and remanded the trial court's summary judgment rulings in favor of CTAS regarding a negligence claim by Kalitta Air, which asserts that CTAS as an expert in aircraft modification should have known that the STCs were deficient, and excluding certain evidence at trial. In preparation for retrial, Kalitta Air submitted to us an expert report on damages that calculated Kalitta Air's damages at either \$232,000 or \$602,000, depending on different factual assumptions. The Company has retained experts whose reports indicate that, even in the event of an adverse jury finding on the liability issues at trial, Kalitta Air has already recovered amounts from the other parties to the initial suit that the Company believes more than fully compensated Kalitta Air for any damages it incurred. CTAS' insurance carrier has accepted defense of the matter with a reservation of its right to dispute its obligations under the applicable insurance policy in the event of an adverse jury finding. The trial began on January 18, 2005, and ended on March 2, 2005 with a deadlocked jury and mistrial. At trial, Kalitta Air claimed damages of \$235,000. Although no date has been set for any further proceedings, a second retrial may be necessary in this matter. The Company believes that it has meritorious defenses and intends to continue to vigorously defend this matter. However, litigation is inherently uncertain and it is possible that an adverse decision could be rendered, which could have a material adverse effect on the consolidated financial position, results of operations or cash flows of the Company.

On November 18, 2002, the Company initiated a proceeding against OSI Systems, Inc. (OSI) in the United States District Court sitting in the Southern District of New York seeking, among other things, a declaratory judgment that the Company had fulfilled all of its obligations under a letter of intent with OSI (the "OSI Letter of Intent"). Under the OSI Letter of Intent, the Company was to negotiate definitive agreements with OSI for the sale of certain businesses the Company acquired from PerkinElmer, Inc. on June 14, 2002. On February 7, 2003,

OSI filed an answer and counterclaims alleging, among other things, that the Company defrauded OSI, breached obligations of fiduciary duty to OSI and breached its obligations under the OSI Letter of Intent. OSI seeks damages in excess of \$100,000, not including punitive damages. Under the OSI Letter of Intent, the Company proposed selling to OSI the conventional detection business and the ARGUS business that the Company acquired from PerkinElmer, Inc. Negotiations with OSI lasted for almost one year and ultimately broke down over issues regarding, among other things, intellectual property, product-line definitions, allocation of employees and due diligence. Discovery on the matter is essentially complete. The Company believes that the claims asserted by OSI in its suit are without merit and intends to vigorously defend against the OSI claims.

L-3 Communications Vertex Aerospace LLC (formerly known as Vertex Aerospace LLC and acquired by the Company on December 1, 2003) (L-3 Vertex) is named as a defendant in one remaining wrongful death lawsuit in the United States District Court, Western District of North Carolina arising from the crash of Air Midwest Flight 5481 at Charlotte-Douglas International Airport in Charlotte, North

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Carolina on January 8, 2003. The crash resulted in the deaths of nineteen passengers and two crewmembers. Each of the lawsuits alleges contributing factors, including that the accident was caused by the improper maintenance of the aircraft by L-3 Vertex, and seeks to recover compensatory and punitive damages. Twenty claims resulting from this incident have previously settled. The National Transportation Safety Board (NTSB) investigated the cause of the crash and has concluded that the crash was caused by the incorrect rigging of the elevator control system compounded by the airplane's center of gravity, which was substantially aft of the certified limit, with several other contributing factors. L-3 Vertex believes that it has meritorious defenses to the pending lawsuit, and intends to defend the case vigorously. The actions have been tendered to L-3 Vertex's insurance carrier, who has accepted the defense of each action served upon L-3 Vertex to date. L-3 Vertex was also indemnified by Air Midwest for losses L-3 Vertex incurred arising out of its provision of maintenance services to Air Midwest. Based on the availability of insurance and the indemnification from Air Midwest, the Company does not believe it will have a material liability in this matter.

On July 1, 2004, lawsuits were filed on behalf of the estates of 31 Russian children in the state courts of Washington, Arizona, California, Florida, New York and New Jersey against Honeywell, Honeywell TCAS, the Company, ACSS, Thales USA and Thales France. The suits are based on facts arising out of the crash over southern Germany of a Bashkirian Airways Tupelov TU 154M aircraft and a DHL Boeing 757 cargo aircraft. On-board the Tupelov aircraft were 12 crew members and 57 passengers, including 45 children. The Boeing aircraft carried a crew of 3. Both aircrafts were equipped with Honeywell/ACSS Model 2000, Change 7 Traffic Collision and Avoidance Systems. Sensing the other aircraft, the on-board DHL TCAS instructed the DHL pilot to climb, and the Tupelov on-board TCAS instructed the Tupelov pilot to descend. However, the Swiss air traffic controller ordered the Tupelov pilot to climb. The Tupelov pilot disregarded the on-board TCAS and put the Tupelov aircraft into a climb striking the DHL aircraft in midair at approximately 35,000 feet. All crew and passengers of both planes were lost. Investigations by the NTSB after the crash revealed that both TCAS units were performing as designed. The suits allege negligence and strict product liability based upon the design of the units and the training provided to resolve conflicting commands and seek compensatory damages. The Company's insurers have accepted defense of the matter and retained counsel. All parties subsequently agreed to litigate this matter in the Federal Court in New Jersey and to dismiss the actions brought in the state courts. Based on the defenses available to the Company and ACSS and the insurance coverage, the Company does not expect to incur a material liability in this matter.

16. Pensions and Other Employee Benefits

The Company maintains multiple pension plans, both contributory and non-contributory, covering employees at certain locations. Eligibility for participation in these plans varies and benefits are generally based on the participant's compensation and/or years of service. The Company's funding policy is generally to contribute in accordance with cost accounting standards that affect government contractors, subject to the Internal Revenue Code and regulations thereon. Plan assets are invested primarily in listed stocks, mutual funds, bonds, U.S. Government obligations and U.S. Government agency obligations.

The Company also provides postretirement medical and life insurance benefits for retired employees and dependents at certain locations. Participants are eligible for these benefits when they retire from active service and meet the eligibility requirements for the Company's pension plans. These benefits are funded primarily on a pay-as-you-go basis with the retiree generally paying a portion of the cost through contributions, deductibles and coinsurance provisions.

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The following table summarizes the aggregate balance sheet impact, as well as the benefit obligations, assets and funded status for all of the Company's pension and postretirement benefit plans. The Company uses a November 30 measurement date to calculate its end of year (December 31) benefit obligations, fair value of plan assets and annual net periodic benefit cost.

	Pension Plans		Postretirement Benefit Plans	
	2004	2003	2004	2003
Change in benefit obligation:				
Benefit obligation at the beginning of the year	\$ 902,132	\$ 713,925	\$ 141,153	\$ 129,406

Service cost	54,957	45,901	4,336	3,803
Interest cost	55,127	49,789	8,066	7,781
Participants' contributions	1,075	246	1,663	1,006
Amendments	4,851	9,657	(3,842)	(6,796)
Actuarial loss	62,183	76,863	965	6,972
Actuarial gain due to medicare subsidy	—	—	(4,734)	—
Obligations assumed in connection with business acquisitions	92,845	25,754	880	2,272
Settlement	(16,938)	—	—	(107)
Foreign currency exchange rate changes	6,102	8,452	1,382	2,965
Benefits paid	(30,757)	(28,455)	(7,799)	(6,149)
Benefit obligation at end of the year	<u>\$ 1,131,577</u>	<u>\$ 902,132</u>	<u>\$ 142,070</u>	<u>\$ 141,153</u>
Change in plan assets:				
Fair value of plan assets at beginning of the year	\$ 561,753	\$ 431,771	\$ 8,739	\$ —
Actual return on plan assets	56,838	64,043	890	121
Assets acquired in connection with business acquisitions	96,144	24,122	—	—
Employer contributions	60,928	60,846	13,652	13,761
Participants' contributions	1,075	246	1,663	1,006
Settlement	(16,938)	—	—	—
Foreign currency exchange rate changes	5,543	9,180	—	—
Benefits paid	(30,757)	(28,455)	(7,799)	(6,149)
Fair value of plan assets at end of the year	<u>\$ 734,586</u>	<u>\$ 561,753</u>	<u>\$ 17,145</u>	<u>\$ 8,739</u>
Funded status of the plans				
Unrecognized actuarial loss	\$ (396,991)	\$ (340,379)	\$ (124,925)	\$ (132,414)
Unrecognized prior service cost	267,635	224,641	3,995	7,706
Net amount recognized	<u>13,458</u>	<u>9,631</u>	<u>(14,370)</u>	<u>(13,347)</u>
	<u>\$ (115,898)</u>	<u>\$ (106,107)</u>	<u>\$ (135,300)</u>	<u>\$ (138,055)</u>
Amounts recognized in the balance sheets consist of:				
Accrued benefit liability	\$ (273,789)	\$ (233,397)	\$ (135,300)	\$ (138,055)
Prepaid benefit cost (included in Other Assets)	19,890	12,432	—	—
Intangible asset (included in Other Assets)	14,080	—	—	—
Accumulated other comprehensive loss	123,921	114,858	—	—
Net amount recognized	<u>\$ (115,898)</u>	<u>\$ (106,107)</u>	<u>\$ (135,300)</u>	<u>\$ (138,055)</u>

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The aggregate accumulated benefit obligation (ABO) for all of the Company's pension plans combined was \$909,202 at year end 2004 and \$721,123 at year end 2003. The table below presents the aggregate ABO and fair value of plan assets for those pension plans with ABO in excess of the fair value of plan assets at year end 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Accumulated benefit obligation	\$ 797,796	\$ 701,855
Fair value of plan assets	585,631	534,338

The table below summarizes the weighted average assumptions used to determine the benefit obligations for the Company's pension and postretirement plans disclosed at December 31, 2004 and 2003.

	<u>Pension Plans</u>		<u>Postretirement Benefit Plans</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Benefit obligations:				
Discount rate	6.00%	6.25%	6.00%	6.25%
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%

The following table summarizes the components of net periodic benefit cost for the Company's pension and postretirement benefit plans for the years ended December 31, 2004, 2003 and 2002.

	Pension Plans			Postretirement Benefit Plans		
	2004	2003	2002	2004	2003	2002
Components of net periodic benefit cost:						
Service cost	\$ 54,957	\$ 45,901	\$ 35,825	\$ 4,336	\$ 3,803	\$ 3,777
Interest cost	55,127	49,789	43,108	8,066	7,781	7,779
Amortization of prior service cost	1,123	625	312	(2,864)	(2,326)	(1,701)
Expected return on plan assets	(51,242)	(39,357)	(40,663)	(1,138)	(155)	—
Recognized actuarial (gain) loss	11,620	13,591	3,246	255	(743)	(530)
Recognition due to settlement	3,238	—	62	(38)	(155)	—
Net periodic benefit cost	\$ 74,823	\$ 70,549	\$ 41,890	\$ 8,617	\$ 8,205	\$ 9,325

The table below summarizes the weighted average assumptions used to determine the net periodic benefit cost for the years ended December 31, 2004, 2003 and 2002.

Pension Plans			Postretirement Benefit Plans		
2004	2003	2002	2004	2003	2002

Net periodic benefit cost:

Discount rate	6.25%	6.75%	7.25%	6.25%	6.75%	7.25%
Expected long-term return on plan assets	9.00%	9.00%	9.50%	9.00%	9.00%	n.a.
Rate of compensation increase	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%

The expected long-term return on plan asset assumption represents the average rate that the Company expects to earn over the long-term on the assets of the Company's benefit plans, including those from dividends, interest income and capital appreciation. The assumption has been determined based on expectations regarding future rates of return for the plans' investment portfolio, with consideration given to the allocation of investments by asset class and historical rates of return for each individual asset class.

The annual increase in cost of benefits (health care cost trend rate) is assumed to be an average of 9.75% in 2005 and is assumed to gradually decrease to a rate of 5.0% in 2011 and thereafter. Assumed

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health care cost trend rates have a significant effect on amounts reported for postretirement medical benefit plans. A one percentage point decrease in the assumed health care cost trend rates would have the effect of decreasing the aggregate service and interest cost by \$568 and the postretirement medical obligations by \$5,769. A one percentage point increase in the assumed health care cost trend rate would have the effect of increasing the aggregate service and interest cost by \$702 and the postretirement medical obligations by \$6,344.

Plan Assets. The Company's Benefit Plan Committee (Committee) has the responsibility to formulate the investment policies and strategies for the plans' assets. These policies and strategies are: (1) invest assets of the plans in a manner consistent with the fiduciary standards of ERISA; (2) preserve the plans' assets; (3) maintain sufficient liquidity to fund benefit payments and pay expenses; (4) evaluate the performance of investment managers; and (5) achieve, on average, a minimum total rate of return equal to the established benchmarks for each asset category.

The Committee retains a professional investment consultant to advise and help ensure that the above policies and strategies are met. The Committee does not involve itself with the day to day operations and selection process of individual securities and investments, and, accordingly, has retained the professional services of investment management organizations to fulfill those tasks. The investment management organizations have investment discretion over the assets placed under their management. The Committee provides each investment manager with specific investment guidelines relevant to its asset class.

The Committee has established the allowable range that plans' assets may be invested in for each major asset category and regularly monitors each to make sure that the actual investment allocation remains within guidelines. The table below presents the range for each major category of the plans' assets at December 31, 2004.

Asset Category	Range
Domestic equity	40%–60%
International equity	5%–15%
Fixed income	25%–35%
Real estate securities	5%–15%
Cash and cash equivalents	0%–20%

The following table presents the Company's pension plan and postretirement benefit plan weighted-average asset allocations at year-end 2004 and 2003, by asset category.

Asset Category	2004	2003
Domestic equity	46%	44%
International equity	14	7
Fixed income securities	23	25
Real estate securities	7	7
Other, primarily cash and cash equivalents	10	17
Total	100%	100%

Contributions. For 2005, the Company expects to contribute cash of approximately \$70,000 to its pension plans and \$13,000 to its postretirement benefit plans.

In connection with the Company's acquisition in 1997 of the ten business units from Lockheed Martin and the formation of the Company, the Company assumed certain defined benefit pension plan liabilities for present and former employees and retirees of certain businesses, which were transferred from Lockheed Martin to the Company. Lockheed Martin also has provided the Pension Benefit Guaranty

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Corporation (PBGC) with commitments to assume sponsorship or other forms of financial support under certain circumstances with respect to the Company's pension plans for Communication Systems West and Aviation Recorders (the "Subject Plans"). Upon the occurrence of certain events, Lockheed Martin, at its option, has the

right to decide whether to cause the Company to transfer sponsorship of any or all of the Subject Plans to Lockheed Martin, even if the PBGC has not sought to terminate the Subject Plans. If Lockheed Martin did assume sponsorship of these plans, it would be primarily liable for the costs associated with funding the Subject Plans or any costs associated with the termination of the Subject Plans but the Company would be required to reimburse Lockheed Martin for these costs. To date, there has been no impact on pension expense and funding requirements resulting from this arrangement. However, should Lockheed Martin assume sponsorship of the Subject Plans or if these plans were terminated, the impact of any increased pension expenses or funding requirements could be material to the Company. For the year ended December 31, 2004, the Company contributed \$492 to the Subject Plans. The Company has performed its obligations under the letter agreement with Lockheed Martin and the Lockheed Martin Commitment and has not received any communications from the PBGC concerning actions which the PBGC contemplates taking in respect of the Subject Plans.

Estimated Future Benefit Payments. The following table presents expected pension and postretirement benefit payments and expected postretirement subsidies due to the Medicare Act described in Note 2, which reflect expected future service, as appropriate.

	Pension Benefits	Postretirement Benefits	
		Benefit Payments	Subsidy Receipts
2005	\$ 35,246	\$ 7,446	\$ —
2006	38,812	8,042	58
2007	42,122	8,533	81
2008	46,211	8,902	113
2009	50,313	9,461	138
Years 2010-2014	325,733	52,885	1,179

Employee Savings Plans. Under its various employee savings plans, the Company matches the contributions of participating employees up to a designated level. The extent of the match, vesting terms and the form of the matching contributions vary among the plans. Under these plans, the Company's matching contributions in L-3 Holdings' common stock and cash were \$61,184 for 2004, \$43,262 for 2003 and \$36,120 for 2002.

17. Supplemental Cash Flow Information

	Year Ended December 31,		
	2004	2003	2002
Interest paid	\$ 138,213	\$ 119,940	\$ 109,301
Income tax payments	41,112	24,373	8,004
Income tax refunds	4,088	7,075	5,877
Noncash transactions:			
Common stock issued for business acquisition consideration	6,982	4,969	10,607
Conversion of 4% senior subordinated convertible contingent debt securities (CODES) to L-3 Holdings' common stock	419,785	—	—
Conversion of 5¼% convertible senior subordinated notes to L-3 Holdings' common stock	298,181	1,630	—

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18. Segment Information

The Company has four reportable segments: (1) Secure Communications & ISR, (2) Training, Simulation & Government Services, (3) Aircraft Modernization, O&M and Products and (4) Specialized Products, which are described in Note 1. The Company evaluates the performance of its operating segments and reportable segments based on their sales and operating income. All corporate expenses are allocated to the Company's divisions using an allocation methodology prescribed by U.S. Government regulations for government contractors. Accordingly, all costs and expenses are included in the Company's measure of segment profitability.

	Secure Communications & ISR	Training, Simulation & Government Services	Aircraft Modernization, O&M and Products	Specialized Products	Corporate	Elimination of Intersegment Sales	Consolidated Total
2004							
Sales	\$ 1,667,804	\$ 1,281,277	\$ 2,290,858	\$ 1,734,714	\$ —	\$ (77,656)	\$ 6,896,997
Operating income	218,008	149,262	249,579	131,770	—	—	748,619
Total assets	1,499,214	977,542	2,252,285	2,160,563	891,161	—	7,780,765
Capital expenditures	26,530	4,318	15,846	33,404	409	—	80,507
Depreciation and amortization	32,241	7,567	32,336	46,805	—	—	118,949
2003							
Sales	\$ 1,440,596	\$ 1,037,354	\$ 1,021,861	\$ 1,634,517	\$ —	\$ (72,734)	\$ 5,061,594
Operating income	172,903	115,487	147,834	144,797	—	—	581,021
Total assets	1,201,187	781,186	2,043,677	1,961,754	517,518	—	6,505,322
Capital expenditures	25,982	3,082	10,281	43,206	323	—	82,874
Depreciation and amortization	29,169	7,977	18,720	39,557	—	—	95,423
2002							
Sales	\$ 1,054,297	\$ 828,627	\$ 677,846	\$ 1,477,655	\$ —	\$ (27,196)	\$ 4,011,229

Operating income	103,449	96,843	105,680	148,007	—	—	453,979
Total assets	1,149,016	690,564	965,038	1,898,972	538,718	—	5,242,308
Capital expenditures	19,350	4,957	14,035	23,542	174	—	62,058
Depreciation and amortization	23,692	6,857	15,513	29,798	—	—	75,860

Corporate assets not allocated to the reportable segments primarily include cash and cash equivalents, corporate office fixed assets, deferred income tax assets and deferred debt issuance costs. In addition, substantially all of the Company's assets are located in North America.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)**

The Company's sales attributable to U.S. customers and foreign customers, based on location of the customer, is summarized in the table below.

	Year Ended December 31,		
	2004	2003	2002
U.S.	\$ 5,993,746	\$ 4,208,273	\$ 3,436,219
Foreign:			
Canada	234,910	127,936	63,447
United Kingdom	112,802	158,836	115,910
Australia	71,926	51,949	62,103
Germany	56,258	60,763	61,024
Other	427,355	453,837	272,526
Total foreign	903,251	853,321	575,010
Consolidated	<u>\$ 6,896,997</u>	<u>\$ 5,061,594</u>	<u>\$ 4,011,229</u>

Sales to principal customers are summarized in the table below.

	Year Ended December 31,		
	2004	2003	2002
U.S. Government agencies	\$ 5,538,852	\$ 3,843,025	\$ 3,107,271
Allied foreign governments	581,300	506,508	395,062
Commercial export	321,951	346,813	179,948
Other (principally U.S. commercial)	454,894	365,248	328,948
Consolidated	<u>\$ 6,896,997</u>	<u>\$ 5,061,594</u>	<u>\$ 4,011,229</u>

The Company's sales by product and services are summarized in the table below.

	Year Ended December 31,		
	2004	2003	2002
Products:			
ISR systems	\$ 826,708	\$ 714,622	\$ 403,179
Aircraft modernization	820,009	654,093	517,309
Communication systems for intelligence collection and imagery processing	469,175	401,383	303,650
Naval power, control and sonar systems	429,737	418,019	280,564
Microwave components and telemetry and space products	395,409	377,768	271,664
Secure communications products	392,533	339,166	300,200
Aviation products	381,217	288,926	216,134
Precision guidance and munitions	338,084	348,513	373,452
Security and detection systems	236,039	253,052	428,984
Training devices and motion simulators	202,219	160,718	144,310
Sensors and imaging products	152,162	103,287	7,233
Subtotal products	<u>4,643,292</u>	<u>4,059,547</u>	<u>3,246,679</u>
Services:			
Aircraft maintenance and logistics support services	1,101,019	79,651	—
Government and support services	822,097	734,732	571,692
Training services	459,180	302,622	256,935
Subtotal services	<u>2,382,296</u>	<u>1,117,005</u>	<u>828,627</u>
Intercompany eliminations	(128,591)	(114,958)	(64,077)
Consolidated	<u>\$ 6,896,997</u>	<u>\$ 5,061,594</u>	<u>\$ 4,011,229</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)**

19. Unaudited Quarterly Financial Data

Unaudited summarized financial data by quarter for the years ended December 31, 2004 and 2003 is presented in the table below.

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2004				
Sales	\$ 1,521,644	\$ 1,679,985	\$ 1,784,132	\$ 1,911,236
Operating income	151,602	178,118	199,360	219,539
Net income	72,008	88,071	102,490	119,311
Basic EPS	0.69	0.83	0.96	1.05
Diluted EPS	0.65	0.78	0.89	1.01

	<u>March 31</u>	<u>June 30</u>	<u>September 30</u>	<u>December 31</u>
2003				
Sales	\$ 1,089,047	\$ 1,226,881	\$ 1,264,611	\$ 1,481,055
Operating income	108,837	128,746	152,372	191,066
Net income	49,737	53,379	76,107	98,417
Basic EPS	0.52	0.56	0.79	1.02
Diluted EPS	0.49	0.52	0.71	0.90

20. Financial Information of L-3 Communications and Its Subsidiaries

Total shareholders' equity for L-3 Communications equals that of L-3 Holdings, but the components, common stock and additional paid-in capital, are different. The table below presents information regarding the balances and changes in common stock and additional paid-in capital of L-3 Communications for each of the three years ended December 31, 2004.

	<u>L-3 Communications Common Stock</u>			
	<u>Shares Issued</u>	<u>Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Total</u>
Balance at December 31, 2001	100	\$ —	\$ 939,037	\$ 939,037
Contributions from L-3 Holdings			855,939	855,939
Balance at December 31, 2002	100	—	1,794,976	1,794,976
Contributions from L-3 Holdings	—	—	98,512	98,512
Balance at December 31, 2003	100	—	1,893,488	1,893,488
Contributions from L-3 Holdings	—	—	886,970	886,970
Balance at December 31, 2004	100	\$ —	\$2,780,458	\$2,780,458

The net proceeds received by L-3 Holdings from the sale of its common stock, exercise of L-3 Holdings employee stock options and L-3 Holdings common stock contributed to the Company's savings plans are contributed to L-3 Communications. L-3 Holding common stock issued to holders of the Convertible Notes and CODES who converted such notes were also contributed to L-3 Communications. See Notes 2 and 8.

The debt of L-3 Communications, including the Senior Subordinated Notes and borrowings under amounts drawn against the Senior Credit Facilities are guaranteed, on a joint and several, full and

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)**

unconditional basis, by certain of its wholly-owned domestic subsidiaries (the "Guarantor Subsidiaries"). See Note 8. The foreign subsidiaries and certain domestic subsidiaries of L-3 Communications (the "Non-Guarantor Subsidiaries") do not guarantee the debt of L-3 Communications. None of the debt of L-3 Communications has been issued by its subsidiaries. There are no restrictions on the payment of dividends from the Guarantor Subsidiaries to L-3 Communications.

In lieu of providing separate audited financial statements for the Guarantor Subsidiaries, the Company has included the accompanying condensed combining financial statements based on Rule 3-10 of SEC Regulation S-X. The Company does not believe that separate financial statements of the Guarantor Subsidiaries are material to users of the financial statements.

The following condensed combining financial information present the results of operations, financial position and cash flows of (i) L-3 Holdings, excluding L-3 Communications, (ii) L-3 Communications, excluding its consolidated subsidiaries (the "Parent"), (iii) the Guarantor Subsidiaries, (iv) the Non-Guarantor Subsidiaries and (v) the eliminations to arrive at the information for L-3 Communications on a consolidated basis.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

	<u>L-3 Holdings</u>	<u>L-3 Communications (Parent)</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated L-3 Communications</u>
<u>Condensed Combining Balance Sheets:</u>						
<u>At December 31, 2004:</u>						
Current assets:						
Cash and cash equivalents	\$ —	\$ 643,173	\$ (45,220)	\$ 55,466	\$ —	\$ 653,419
Contracts in process	—	591,018	1,111,253	276,756	—	1,979,027
Other current assets	—	127,465	39,390	9,023	—	175,878
Total current assets	—	1,361,656	1,105,423	341,245	—	2,808,324
Goodwill	—	885,242	2,709,731	459,841	—	4,054,814
Other assets	—	307,929	492,264	117,434	—	917,627
Investment in and amounts due from consolidated subsidiaries	3,799,761	4,259,200	831,062	40,000	(8,930,023)	—
Total assets	<u>\$ 3,799,761</u>	<u>\$ 6,814,027</u>	<u>\$ 5,138,480</u>	<u>\$ 958,520</u>	<u>\$(8,930,023)</u>	<u>\$ 7,780,765</u>
Current liabilities	\$ —	\$ 495,190	\$ 489,500	\$ 191,150	\$ —	\$ 1,175,840
Other long-term liabilities	—	329,270	182,679	25,873	—	537,822
Long-term debt	—	2,189,806	—	—	—	2,189,806
Minority interests	—	—	—	77,536	—	77,536
Shareholders' equity	3,799,761	3,799,761	4,466,301	663,961	(8,930,023)	3,799,761
Total liabilities and shareholders' equity	<u>\$ 3,799,761</u>	<u>\$ 6,814,027</u>	<u>\$ 5,138,480</u>	<u>\$ 958,520</u>	<u>\$(8,930,023)</u>	<u>\$ 7,780,765</u>

At December 31, 2003:

Current assets:						
Cash and cash equivalents	\$ —	\$ 155,375	\$ (41,291)	\$ 20,792	\$ —	\$ 134,876
Contracts in process	—	528,056	817,547	269,745	—	1,615,348
Other current assets	—	159,194	21,928	6,356	—	187,478
Total current assets	—	842,625	798,184	296,893	—	1,937,702
Goodwill	—	805,388	2,425,591	421,457	—	3,652,436
Other assets	—	356,346	446,403	112,435	—	915,184
Investment in and amounts due from consolidated subsidiaries	3,290,873	3,708,989	596,696	21,052	(7,617,610)	—
Total assets	<u>\$ 3,290,873</u>	<u>\$ 5,713,348</u>	<u>\$ 4,266,874</u>	<u>\$ 851,837</u>	<u>\$(7,617,610)</u>	<u>\$ 6,505,322</u>
Current liabilities	\$ —	\$ 396,868	\$ 370,468	\$ 156,876	\$ —	\$ 924,212
Other long-term liabilities	—	284,684	167,275	21,144	—	473,103
Long-term debt	716,377	2,457,300	—	—	(716,377)	2,457,300
Minority interests	—	—	—	76,211	—	76,211
Shareholders' equity	2,574,496	2,574,496	3,729,131	597,606	(6,901,233)	2,574,496
Total liabilities and shareholders' equity	<u>\$ 3,290,873</u>	<u>\$ 5,713,348</u>	<u>\$ 4,266,874</u>	<u>\$ 851,837</u>	<u>\$(7,617,610)</u>	<u>\$ 6,505,322</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)

	<u>L-3 Holdings</u>	<u>L-3 Communications (Parent)</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated L-3 Communications</u>
<u>Condensed Combining Statements of Operations:</u>						
<u>For the year ended December 31, 2004:</u>						
Sales	\$ —	\$ 2,038,704	\$ 4,051,825	\$ 834,169	\$ (27,701)	\$ 6,896,997
Costs and expenses	—	1,782,128	3,651,414	742,537	(27,701)	6,148,378
Operating income	—	256,576	400,411	91,632	—	748,619
Other expense (income), net	—	(20,108)	805	(670)	12,721	(7,252)
Interest expense	15,020	143,926	635	13,508	(27,741)	145,348
Minority interests in net income of consolidated subsidiaries	—	—	—	8,862	—	8,862
Loss on retirement of debt	—	4,973	—	—	—	4,973
Provision (benefit) for income taxes	(5,407)	46,002	143,630	25,176	5,407	214,808

Equity in net income of consolidated subsidiaries	391,493	300,097	—	—	(691,590)	—
Net income	<u>\$ 381,880</u>	<u>\$ 381,880</u>	<u>\$ 255,341</u>	<u>\$ 44,756</u>	<u>\$ (681,977)</u>	<u>\$ 381,880</u>
<u>For the year ended December 31, 2003:</u>						
Sales	\$ —	\$ 1,918,288	\$ 2,715,558	\$ 445,485	\$ (17,737)	\$ 5,061,594
Costs and expenses	—	1,635,998	2,464,534	397,778	(17,737)	4,480,573
Operating income	—	282,290	251,024	47,707	—	581,021
Other expense (income), net	—	(9,575)	92	784	8,484	(215)
Interest expense	34,058	131,734	501	8,932	(42,542)	132,683
Minority interests in net income of consolidated subsidiaries	—	—	—	3,515	—	3,515
Loss on retirement of debt	—	11,225	—	—	—	11,225
Provision (benefit) for income taxes	(12,261)	53,607	90,155	12,411	12,261	156,173
Equity in net income of consolidated subsidiaries	299,437	182,341	—	—	(481,778)	—
Net income	<u>\$ 277,640</u>	<u>\$ 277,640</u>	<u>\$ 160,276</u>	<u>\$ 22,065</u>	<u>\$ (459,981)</u>	<u>\$ 277,640</u>
<u>For the year ended December 31, 2002:</u>						
Sales	\$ —	\$ 1,875,389	\$ 1,895,410	\$ 260,799	\$ (20,369)	\$ 4,011,229
Costs and expenses	—	1,622,200	1,736,233	219,186	(20,369)	3,557,250
Operating income	—	253,189	159,177	41,613	—	453,979
Other expense (income), net	—	(11,202)	286	(262)	6,257	(4,921)
Interest expense	35,499	120,774	1,622	6,353	(41,756)	122,492
Minority interests in net income of consolidated subsidiaries	—	—	—	6,198	—	6,198
Loss on retirement of debt	—	16,187	—	—	—	16,187
Provision (benefit) for income taxes	(13,880)	44,942	56,145	10,469	13,880	111,556
Cumulative effect of a change in accounting principle	—	(14,749)	—	(9,621)	—	(24,370)
Equity in net income of consolidated subsidiaries	199,716	110,358	—	—	(310,074)	—
Net income	<u>\$ 178,097</u>	<u>\$ 178,097</u>	<u>\$ 101,124</u>	<u>\$ 9,234</u>	<u>\$ (288,455)</u>	<u>\$ 178,097</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)**

	<u>L-3 Holdings</u>	<u>L-3 Communications (Parent)</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated L-3 Communications</u>
<u>Condensed Combining Statements of Cash Flows:</u>						
<u>For the year ended December 31, 2004:</u>						
Operating activities:						
Net cash from operating activities	\$ —	\$ 219,057	\$ 311,748	\$ 89,866	\$ —	\$ 620,671
Investing activities:						
Business acquisitions, net of cash acquired	—	(102,341)	(303,550)	(67,542)	—	(473,433)
Other investing activities	(164,220)	(407,959)	(38,651)	(6,492)	535,312	(82,010)
Net cash used in investing activities	(164,220)	(510,300)	(342,201)	(74,034)	535,312	(555,443)
Financing activities:						
Proceeds from sale of senior subordinated notes	—	650,000	—	—	—	650,000
Redemption of senior subordinated notes	—	(205,751)	—	—	—	(205,751)
Other financing activities, net	164,220	334,792	26,524	18,842	(535,312)	9,066
Net cash from financing activities	164,220	779,041	26,524	18,842	(535,312)	453,315
Net increase (decrease) in cash	—	487,798	(3,929)	34,674	—	518,543
Cash and cash equivalents, beginning of the period	—	155,375	(41,291)	20,792	—	134,876
Cash and cash equivalents, end of the period	<u>\$ —</u>	<u>\$ 643,173</u>	<u>\$ (45,220)</u>	<u>\$ 55,466</u>	<u>\$ —</u>	<u>\$ 653,419</u>
<u>For the year ended December 31, 2003:</u>						
Operating activities:						
Net cash from (used in) operating activities	\$ —	\$ 219,890	\$ 240,672	\$ (4,499)	\$ —	\$ 456,063
Investing activities:						
Business acquisitions, net of cash acquired	—	(53,626)	(869,863)	(90,950)	—	(1,014,439)
Other investing activities	(98,512)	(1,000,542)	(23,530)	(10,359)	1,059,325	(73,618)
Net cash used in investing activities	(98,512)	(1,054,168)	(893,393)	(101,309)	1,059,325	(1,088,057)
Financing activities:						
Proceeds from sale of senior subordinated notes	—	790,788	—	—	—	790,788
Redemption of senior subordinated notes	—	(187,650)	—	—	—	(187,650)
Other financing activities, net	98,512	260,094	618,678	110,917	(1,059,325)	28,876
Net cash from financing activities	98,512	863,232	618,678	110,917	(1,059,325)	632,014
Net increase (decrease) in cash	—	28,954	(34,043)	5,109	—	20
Cash and cash equivalents, beginning of the period	—	126,421	(7,248)	15,683	—	134,856
Cash and cash equivalents, end of the period	<u>\$ —</u>	<u>\$ 155,375</u>	<u>\$ (41,291)</u>	<u>\$ 20,792</u>	<u>\$ —</u>	<u>\$ 134,876</u>

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS —(continued)
(Dollars in thousands, except per share data)**

	<u>L-3 Holdings</u>	<u>L-3 Communications (Parent)</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated L-3 Communications</u>
For the year ended December 31, 2002:						
Operating activities:						
Net cash from operating activities	\$ —	\$ 137,837	\$ 169,221	\$ 11,402	\$ —	\$ 318,460
Investing activities:						
Business acquisitions, net of cash acquired	—	(146,913)	(1,499,891)	(95,329)	—	(1,742,133)
Other investing activities	(855,939)	(1,627,853)	(27,130)	(8,632)	2,451,159	(68,395)
Net cash used in investing activities	(855,939)	(1,774,766)	(1,527,021)	(103,961)	2,451,159	(1,810,528)
Financing activities:						
Proceeds from sale of senior subordinated notes	—	750,000	—	—	—	750,000
Redemption of senior subordinated notes	—	(237,468)	—	—	—	(237,468)
Proceeds from sale of L-3 Holdings' common stock, net	766,780	—	—	—	—	766,780
Other financing activities	89,159	930,608	1,354,964	63,018	(2,451,159)	(13,410)
Net cash from financing activities	855,939	1,443,140	1,354,964	63,018	(2,451,159)	1,265,902
Net decrease in cash	—	(193,789)	(2,836)	(29,541)	—	(226,166)
Cash and cash equivalents, beginning of the period	—	320,210	(4,412)	45,224	—	361,022
Cash and cash equivalents, end of the period	<u>\$ —</u>	<u>\$ 126,421</u>	<u>\$ (7,248)</u>	<u>\$ 15,683</u>	<u>\$ —</u>	<u>\$ 134,856</u>

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CREDIT AGREEMENT

Dated as of March 9, 2005

among

L-3 COMMUNICATIONS CORPORATION,
as the Borrower,

The Guarantors Party Hereto,

BANK OF AMERICA, N.A.,
as Administrative Agent, Swing Line Lender
and
an L/C Issuer,

and

LEHMAN COMMERCIAL PAPER INC.
as Syndication Agent

and

The Other Lenders Party Hereto

BANC OF AMERICA SECURITIES LLC,

and

LEHMAN BROTHERS, INC.
as

Joint Lead Arrangers and Joint Book Managers

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G	Assignment and Assumption
H	Joinder Agreement

CREDIT AGREEMENT

This CREDIT AGREEMENT ("Agreement") is entered into as of March 9, 2005, among L-3 COMMUNICATIONS CORPORATION, a Delaware corporation (the "Borrower"), the Guarantors (as defined herein), each lender from time to time party hereto (collectively, the "Lenders" and individually, a "Lender"), and BANK OF AMERICA, N.A., as Administrative Agent, Swing Line Lender and an L/C Issuer.

The Borrower has requested that the Lenders provide a revolving credit facility, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I DEFINITIONS AND ACCOUNTING TERMS

1.01 DEFINED TERMS.

As used in this Agreement, the following terms shall have the meanings set forth below:

"Acquisition", by any Person, means the acquisition by such Person (other than a transaction that would be classified as a capital expenditure in accordance with GAAP), in a single transaction or in a series of related transactions, of all or any substantial portion of the Property of another Person, all or any substantial portion of any division or business unit of any Person, or at least a majority of the Voting Stock of another Person, in each case whether or not involving a merger or consolidation with such other Person and whether for cash, property, services, assumption of Indebtedness, securities or otherwise.

"Additional Subordinated Debt" means any unsecured Indebtedness for borrowed money of the Borrower or any of its Subsidiaries incurred after the Closing Date which (a) to the extent such Indebtedness refinances any Existing Subordinated Debt, requires no cash payments of principal prior to the Maturity Date, (b) does not contain limitations on the ability of Borrower or any of its Subsidiaries to incur Indebtedness which are more restrictive than those found in Section 4.09 (Incurrence of Indebtedness and Issuance of Preferred Stock) of the 2004 Indenture, and (c) is subordinated to the Obligations on terms no less favorable to the Lenders than those governing the 2004 Senior Subordinated Notes.

"Administrative Agent" means Bank of America in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

"Administrative Agent's Office" means the Administrative Agent's address and, as appropriate, account as set forth on Schedule 11.02, or such other address or account as the Administrative Agent may from time to time notify to the Borrower and the Lenders.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, as to any Person, any other Person which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition,

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"control" of a Person means the power, directly or indirectly, to direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"Aggregate Commitments" means the Commitments of all the Lenders. The aggregate principal amount of the Commitments of all the Lenders on the Closing Date is ONE BILLION DOLLARS (\$1,000,000,000).

"Agreement" means this Credit Agreement.

"Alternative Currency" means any currency (other than Dollars) of a country that is a member of the Organization for Economic Cooperation and Development that is freely tradable and convertible into Dollars, any other currency which is freely tradable and convertible into Dollars and any other currency approved by the applicable L/C Issuer and the Administrative Agent.

"Applicable Percentage" means with respect to any Lender at any time, the percentage of the Aggregate Commitments represented by such Lender's Commitment at such time. If the commitment of each Lender to make Loans and the obligation of each L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 9.02 or if the Aggregate Commitments have expired, then the Applicable Percentage of each Lender shall be determined based on the Applicable Percentage of such Lender most recently in effect, giving effect to any subsequent assignments. The initial Applicable Percentage of each Lender is set forth opposite the name of such Lender on Schedule 2.01 or in the Assignment and

Assumption pursuant to which such Lender becomes a party hereto, as applicable.

"Applicable Rate" means, from time to time, the following percentages per annum, based upon the Debt Rating as set forth below:

PRICING LEVEL	DEBT RATING	COMMITMENT FEE	APPLICABLE MARGIN FOR LIBOR LOANS	APPLICABLE MARGIN FOR BASE RATE LOANS	FINANCIAL LETTER OF CREDIT FEE	COMMERCIAL AND PERFORMANCE LETTER OF CREDIT FEE
1	(less than) BB / Ba2 / BB / unrated	0.375%	1.75%	0.75%	1.75%	1.31250%
2	BB / Ba2 / BB	0.250%	1.25%	0.250%	1.25%	0.93750%
3	BB+ / Ba1 / BB+	0.225%	1.00%	0.00%	1.00%	0.75000%
4	BBB- / Baa3 / BBB-	0.200%	0.875%	0.00%	0.875%	0.65625%
5	BBB / Baa2 / BBB	0.150%	0.750%	0.00%	0.750%	0.56250%
6	(greater than or equal to) BBB+ / Baa1 / BBB+	0.125%	0.625%	0.00%	0.625%	0.46875%

"Debt Rating" means, as of any date of determination, the rating as determined by the Ratings Agencies (collectively, the "Debt Ratings") of the Borrower's non-credit-enhanced, senior unsecured

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long-term debt; provided that if a Debt Rating is issued by each of the Ratings Agencies and there is a split rating, then the two highest of such Debt Ratings shall apply (with the Debt Rating for Pricing Level 6 being the highest and the Debt Rating for Pricing Level 1 being the lowest) in determining the Pricing Level. If there is a split in Debt Ratings of the two highest ratings of the Ratings Agencies, then the lower Debt Rating of the two highest shall apply in determining the Pricing Level or, if there is a multiple split in Debt Ratings of the two highest ratings of the Ratings Agencies, then the Debt Rating that is one level lower than the highest rating shall apply in determining the Pricing Level.

Initially, the Applicable Rate shall be determined based upon the Debt Rating specified in the certificate delivered pursuant to Section 5.01(a)(vi). Thereafter, each change in the Applicable Rate resulting from a publicly announced change in the Debt Rating shall be effective, during the period commencing on the date of the public announcement thereof and ending on the date immediately preceding the effective date of the next such change.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an Eligible Assignee (with the consent of any party whose consent is required by Section 11.06(b), and accepted by the Administrative Agent, in substantially the form of Exhibit G or any other form approved by the Administrative Agent.

"Attributable Indebtedness" means, on any date, (a) the amount of any Capital Lease Obligations of any Person, (b) in respect of any Synthetic Lease Obligation, the capitalized amount of the remaining lease payments under the relevant lease that would appear on a balance sheet of such Person prepared as of such date in accordance with GAAP if such lease were accounted for as a Capital Lease and (c) in respect of any Securitization Transaction of any Person, the outstanding principal amount of such financing, after taking into account reserve accounts.

"Audited Financial Statements" means the audited consolidated balance sheet of the Borrower and its Subsidiaries for the fiscal year ended December 31, 2003, and the related consolidated statements of income or operations, shareholders' equity and cash flows for such fiscal year of the Borrower and its Subsidiaries, including the notes thereto.

"Availability Period" means the period from and including the Closing Date to the earliest of (a) the Maturity Date, (b) the date of termination of the Aggregate Commitments pursuant to Section 2.06, and (c) the date of termination of the commitment of each Lender to make Loans and of the obligation of each L/C Issuer to make L/C Credit Extensions pursuant to Section 9.02.

"Bank of America" means Bank of America, N.A. and its successors.

"BAS" means Banc of America Securities LLC.

"Base Rate" means for any day a fluctuating rate per annum equal to the higher of (a) the Federal Funds Rate plus 1/2 of 1% and (b) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its "prime rate." The "prime rate" is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return,

general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

"Base Rate Committed Loan" means a Committed Loan that is a Base Rate Loan.

"Base Rate Loan" means a Loan that bears interest based on the Base Rate.

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"Borrower" has the meaning specified in the introductory paragraph hereto.

"Borrower Materials" has the meaning specified in Section 11.02(c).

"Borrowing" means a Committed Borrowing or a Swing Line Borrowing, as the context may require.

"Business" has the meaning specified in Section 6.10.

"Business Day" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under the Laws of, or are in fact closed in, New York, New York or the state where the Administrative Agent's Office is located and, if such day relates to any Eurodollar Rate Loan, means any such day on which dealings in Dollar deposits are conducted by and between banks in the London interbank eurodollar market.

"Capital Lease" means, as applied to any Person, any lease of any Property by that Person as lessee which, in accordance with GAAP, is required to be accounted for as a capital lease on the balance sheet of that Person.

"Capital Lease Obligations" means, of any Person as of the date of determination, the aggregate liability of such Person under Capital Leases reflected on a balance sheet of such Person under GAAP.

"Cash Collateralize" has the meaning specified in Section 2.03(g).

"Cash Equivalents" means (a) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed or insured by the United States Government or any agency thereof, (b) certificates of deposit and time deposits with maturities of one year or less from the date of acquisition and overnight bank deposits of any Lender or of any commercial bank having capital and surplus in excess of \$500,000,000, (c) repurchase obligations of any Lender or of any commercial bank satisfying the requirements of clause (b) of this definition, having a term of not more than one year with respect to securities issued or fully guaranteed or insured by the United States Government, (d) commercial paper of a domestic issuer rated at least A-2 by S&P or P-2 by Moody's, or carrying an equivalent rating by a nationally recognized rating agency if both of S&P and Moody's cease publishing ratings of investments, (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by S&P or A by Moody's, (f) securities with maturities of one year or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b) of this definition or (g) shares of money market mutual or similar funds (excluding hedge funds) which (i) invest exclusively in assets satisfying the requirements of clauses (a) through (f) of this definition, (ii) comply with the criteria set forth in Rule 2a-7 under the Investment Company Act of 1940 or (iii) are rated AAA by S&P or Aaa by Moody's.

"Change in Law" means the occurrence, after the date of this Agreement (or, in the case of an Eligible Assignee, after the date such Eligible Assignee becomes a party to this Agreement), of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority.

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"Change of Control" means an event or series of events by which:

(a) any "person" (as such term is defined in Section 13(d)(3) of the Exchange Act) shall become the "beneficial owner" (as such term is defined in Rule 13d-3 and Rule 13d-5 under the Exchange Act), directly or indirectly, of more than 35% of the Voting Stock (measured by voting power rather than number of shares) of Holdings (or in the event Holdings is merged with and into the Borrower, the Borrower);

(b) a majority of the members of the board of directors of Holdings (or in the event Holdings is merged with and into the Borrower, the Borrower) fail to be (a) members of the board of directors of Holdings incumbent as of the Closing Date, or (b) members nominated by the members of the board of directors of Holdings incumbent on the Closing Date, or (c) members appointed by members of the board of directors of Holdings nominated under clause (a) or (b);

(c) Holdings (unless it is merged with and into the Borrower) shall, at any time, cease to own 100% of the Equity Interests of the Borrower;

(d) a "Change of Control" (or any comparable term) shall have occurred under, and as defined in, the 2004 Senior Subordinated Note Documents; or

(e) a "Change of Control" (or any comparable term) shall have occurred under, and as defined in, the documentation governing any Additional Subordinated Debt.

"Closing Date" means March 9, 2005.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" means a collective reference to the collateral which is identified in, and at any time will be covered by, the Collateral Documents.

"Collateral Documents" means a collective reference to the Pledge Agreement and such other documents executed and delivered in connection with the attachment and perfection of the Administrative Agent's security interests, for the benefit of the holders of the Obligations, in certain Equity Interests of each Domestic and Foreign Subsidiaries of a Loan Party as required by Section 7.08 or 7.09, including without limitation, UCC financing statements.

"Collateral Effective Date" means the first date (or, if a Collateral Release Date shall have occurred, the first date after such Collateral Release Date) of the public announcement upon which two of the three Ratings Agencies reduce the Debt Rating below BBB- or the equivalent, unless the Collateral Termination Date shall occur prior to such date (notwithstanding any reduction in the Debt Rating after the Collateral Termination Date).

"Collateral Release Date" means the first date (subsequent to any Collateral Effective Date) of the public announcement upon which two of the three Ratings Agencies increase the Debt Rating to BBB- or the equivalent.

"Collateral Termination Date" means the first date of the public announcement upon which all three Rating Agencies have Debt Ratings of at least BBB- or equivalent, provided that, if such date occurs before the Collateral Effective Date, then the Collateral Effective Date shall not occur notwithstanding any subsequent reduction in Debt Ratings.

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"Commitment" means, as to each Lender, its obligation to (a) make Committed Loans to the Borrower pursuant to Section 2.01, (b) purchase participations in L/C Obligations, and (c) purchase participations in Swing Line Loans, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule 2.01 or in the Assignment and Assumption pursuant to which such Lender becomes a party hereto, as applicable, as such amount may be adjusted from time to time in accordance with this Agreement.

"Committed Borrowing" means a borrowing consisting of simultaneous Committed Loans of the same Type and, in the case of Eurodollar Rate Loans, having the same Interest Period made by each of the Lenders pursuant to Section 2.01.

"Committed Loan" has the meaning specified in Section 2.01.

"Committed Loan Notice" means a notice of (a) a Committed Borrowing, (b) a conversion of Committed Loans from one Type to the other, or (c) a continuation of Eurodollar Rate Loans, pursuant to Section 2.02(a), which, if in writing, shall be substantially in the form of Exhibit A.

"Commonly Controlled Entity" means an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414(b) or (c) of the Code.

"Compliance Certificate" means a certificate substantially in the form of Exhibit F.

"Confidential Information Memorandum" means the Confidential Information Memorandum dated February 2005 and delivered to the Lenders in connection with the financing hereunder.

"Consolidated Cash Interest Expense" means, as of the last day of any fiscal quarter, the sum of the amount of interest expense, payable in cash, of the Borrower and its Consolidated Subsidiaries for the four fiscal quarters ended on such date plus the amount of interest expense, payable in cash, of Holdings with respect to Indebtedness (including Disqualified Preferred Stock) guaranteed by the Borrower or any of its Consolidated Subsidiaries for the four fiscal quarters ended on such date, determined on a consolidated basis in accordance with GAAP for such period.

"Consolidated EBITDA" means, for any period, for the Borrower and its Consolidated Subsidiaries on a consolidated basis, an amount equal to Consolidated Net Income (excluding, without duplication, (v) impairment losses incurred on goodwill and other intangible assets or on debt or equity investments computed in accordance with Financial Accounting Standard No. 142 or other GAAP, (w) gains or losses incurred on the retirement of debt computed in accordance with Financial Accounting Standard No. 145, (x) extraordinary gains and losses in accordance with GAAP (y) gains and losses in connection with asset dispositions whether or not constituting extraordinary gains and losses and (z)

non-cash gains or losses on discontinued operations) for such period plus the following to the extent deducted in calculating such Consolidated Net Income: (a) Consolidated Interest Expense of the Borrower and its Consolidated Subsidiaries (and all Consolidated Interest Expense of Holdings with respect to Indebtedness guaranteed by the Borrower and its Subsidiaries) for such period, (b) the provision for Federal, state, local and foreign income taxes payable by the Borrower and its Consolidated Subsidiaries for such period, (c) depreciation and amortization expense for such period and (d) non-cash stock-based compensation expenses for such period, each as determined on a consolidated basis in accordance with GAAP.

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"Consolidated Funded Indebtedness" means, as of any date of determination, for the Borrower and its Consolidated Subsidiaries on a consolidated basis, the sum of (a) all Indebtedness outstanding on such date for borrowed money or with respect to Disqualified Preferred Stock, the deferred purchase price of property or services, to the extent, if any, reflected as a liability on the balance sheet of the Borrower and its Consolidated Subsidiaries on such date in accordance with GAAP and the amount of Capital Lease Obligations outstanding on such date plus (b) all Indebtedness of Holdings outstanding on such date for borrowed money or with respect to Disqualified Preferred Stock, in each case only to the extent guaranteed by the Borrower or any of its Consolidated Subsidiaries.

"Consolidated Interest Coverage Ratio" means, as of any date of determination, the ratio of (a) Consolidated EBITDA for the period of the four prior fiscal quarters ended on such date to (b) Consolidated Cash Interest Expense for such period, each as determined on a consolidated basis in accordance with GAAP.

"Consolidated Interest Expense" means, as of the last day of any fiscal quarter, the sum of the amount of interest expense of the Borrower and its Consolidated Subsidiaries for the four fiscal quarters ended on such date plus the amount of interest expense of Holdings with respect to Indebtedness (including Disqualified Preferred Stock) guaranteed by the Borrower or any of its Consolidated Subsidiaries for the four fiscal quarters ended on such date, determined on a consolidated basis, each in accordance with GAAP for such period.

"Consolidated Leverage Ratio" means, as of any date of determination, the ratio of (a) (i) Consolidated Funded Indebtedness as of such date minus (ii) the Designated Cash Balances to (b) Consolidated EBITDA for the period of the four fiscal quarters most recently ended.

"Consolidated Net Income" means, for any period, for the Borrower and its Consolidated Subsidiaries on a consolidated basis, the net income of the Borrower and its Consolidated Subsidiaries for that period, determined on a consolidated basis in accordance with GAAP for such period.

"Consolidated Senior Indebtedness" means, for any period for the Borrower and its Consolidated Subsidiaries on a consolidated basis, the sum of (a) Consolidated Funded Indebtedness minus (b) Subordinated Debt of the Borrower and Indebtedness of Holdings which is guaranteed by the Borrower on a subordinated basis on terms no less favorable to the Lenders than the subordination provisions contained in the 2004 Senior Subordinated Notes.

"Consolidated Senior Leverage Ratio" means, as of any date of determination, the ratio of (a) Consolidated Senior Indebtedness as of such date to (b) Consolidated EBITDA for the period of the four fiscal quarters most recently ended.

"Consolidated Subsidiary" means any Subsidiary which is consolidated with the Borrower for financial reporting purposes under GAAP.

"Consolidated Total Assets" means, as of any date of determination, all assets of the Borrower and its Consolidated Subsidiaries as determined according to the consolidated balance sheet contained in the most recent SEC filing.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

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"Credit Extension" means each of the following: (a) a Borrowing and (b) an L/C Credit Extension.

"Cumulative Asset Sale Amount" means, on any Required Prepayment Date, the excess, if any, of (a) Net Proceeds received by the Borrower or any of its Subsidiaries since the Closing Date minus (b) the aggregate amount of (i) investments made by the Borrower and its Subsidiaries since the Closing Date in assets employed in their respective businesses or in a Similar Business and (ii) Acquisitions made by the Borrower and its Subsidiaries since the Closing Date.

"Debt Rating" has the meaning specified in the definition of "Applicable Rate."

"Debtor Relief Laws" means the Bankruptcy Code of the United States, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"Default" means any event or condition that constitutes an Event of Default or that, with the giving of any notice, the passage of time, or both, would be an Event of Default.

"Default Rate" means (a) when used with respect to Obligations other than Letter of Credit Fees, an interest rate equal to (i) the Base Rate plus (ii) the Applicable Rate, if any, applicable to Base Rate Loans plus (iii) 2% per annum; provided, however, that with respect to a Eurodollar Rate Loan, the Default Rate shall be an interest rate equal to the interest rate (including any Applicable Rate) otherwise applicable to such Loan plus 2% per annum, and (b) when used with respect to Letter of Credit Fees, a rate equal to the Applicable Rate plus 2% per annum.

"Defaulting Lender" means any Lender that (a) has failed to fund any portion of the Committed Loans, participations in L/C Obligations or participations in Swing Line Loans required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder, and such failure has not been cured, (b) has otherwise failed to pay over to the Administrative Agent or any other Lender any other amount required to be paid by it hereunder within one Business Day of the date when due, and such failure has not been cured, unless the subject of a good faith dispute, or (c) has been deemed insolvent or become the subject of a bankruptcy or insolvency proceeding.

"Designated Cash Balances" means, at any time, the lesser of (a) the actual unrestricted domestic cash balances on hand of the Borrower and its Subsidiaries which are not subject to any Liens in favor of any Person in excess of \$25,000,000 and (b) \$250,000,000.

"Disqualified Preferred Stock" means any stock (other than common stock) issued by a Person which is not classified as shareholders' equity on a balance sheet of such Person in accordance with GAAP.

"Dollar" and "\$" mean lawful money of the United States.

"Dollar Equivalent" means, at any date, (a) with respect to any amount denominated in Dollars, such amount, and (b) with respect to any amount denominated in any Alternative Currency, the equivalent amount thereof in Dollars as determined by the Administrative Agent or the applicable L/C Issuer, as the case may be, at such time on the basis of the Spot Rate (determined in respect of such date) for the purchase of Dollars with such Alternative Currency.

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"Domestic Subsidiary" means any Subsidiary that is organized under the laws of any political subdivision of the United States.

"Eligible Assignee" means (a) a Lender; (b) an Affiliate of a Lender (unless a transfer to such Affiliate would result in increased costs to the Borrower) and (c) any other Person (other than a natural person) approved by (i) the Administrative Agent, the applicable L/C Issuer and the Swing Line Lender, and (ii) unless an Event of Default has occurred and is continuing, the Borrower (each such approval not to be unreasonably withheld or delayed); provided that notwithstanding the foregoing, "Eligible Assignee" shall not include the Borrower or any of the Borrower's Affiliates or Subsidiaries.

"Environmental Laws" means any and all laws, rules, orders, regulations, statutes, ordinances, codes, decrees, or other legally enforceable requirement (including, without limitation, common law) of any foreign government, the United States, or any state, local, municipal or other governmental authority, regulating, relating to or imposing liability or standards of conduct concerning protection of the environment or of human health as affected by the environment as has been, is now, or may at any time hereafter be, in effect, including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. ss. ss. 9601 et seq.; the Toxic Substance Control Act, 15 U.S.C. ss. ss. 9601 et seq.; the Hazardous Materials Transportation Act, 49 U.S.C. ss. ss. 1802 et seq.; the Resource Conservation and Recovery Act, 42 U.S.C. ss. ss. 6901 et seq.; the Clean Water Act; 33 U.S.C. ss. ss. 1251 et seq.; the Clean Air Act, 42 U.S.C. ss. ss. 7401 et seq.; or other similar federal and/or state environmental laws.

"Environmental Permits" means any and all permits, licenses, registrations, notifications, exemptions and any other authorization required under any applicable Environmental Law.

"Equity Interests" means, with respect to any Person, all of the shares of capital stock of (or other ownership or profit interests in) such Person, all of the warrants, options or other rights for the purchase or acquisition from such Person of shares of capital stock of (or other ownership or profit interests in) such Person, other than any Disqualified Preferred Stock.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Code (and Sections 414(m) and (o) of the Code for purposes of provisions relating to Section 412 of the Code).

"Eurodollar Rate" means, for any Interest Period with respect to a Eurodollar Rate Loan, the rate per annum equal to the British Bankers Association LIBOR Rate ("BBA LIBOR"), as published by Reuters (or other commercially available source providing quotations of BBA LIBOR as designated by the Administrative Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period) with a

term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Administrative Agent to be the rate at which deposits in Dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Loan being made, continued or converted by Bank of America and with a term equivalent to such Interest Period would be offered by Bank of America's London Branch to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period.

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"Eurodollar Rate Loan" means a Committed Loan that bears interest at a rate based on the Eurodollar Rate.

"Event of Default" has the meaning specified in Section 9.01.

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, any L/C Issuer or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by any jurisdiction other than a jurisdiction in which the Administrative Agent or such Lender would not be subject to such taxes but for its activities related to this Agreement or any other Loan Document, (b) any branch profits taxes imposed by the United States or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 11.13), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party hereto (or designates a new Lending Office), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 3.01(a) and (d) any withholding tax that is attributable to such Foreign Lender's failure or inability (other than as a result of Change in Law) to comply with Section 3.01(e).

"Existing Credit Agreement" means that certain Third Amended and Restated Credit Agreement dated as of May 16, 2001 (as amended, supplemented, restated or otherwise modified from time to time) among the Borrower, Holdings, Bank of America, as administrative agent and a syndicate of lenders.

"Existing Letters of Credit" means those letters of credit identified on Schedule 2.03.

"Existing Subordinated Debt" means the collective reference to the subordinated indebtedness identified on Schedule 1.01(b).

"Federal Funds Rate" means, for any day, the rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to Bank of America on such day on such transactions as determined by the Administrative Agent.

"Fee Letter" means the letter agreement, dated February 1, 2005, among the Borrower, the Administrative Agent and BAS.

"Financial Letter of Credit" means a standby Letter of Credit not constituting a Performance Letter of Credit.

"Fitch" means Fitch, Inc., and any successor thereto.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is resident for tax purposes. For purposes of this definition, the United States, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

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"Foreign Subsidiary" means any Subsidiary that is organized under the laws of a jurisdiction other than the United States, a State thereof or the District of Columbia.

"FRB" means the Board of Governors of the Federal Reserve System of the United States.

"Fully Satisfied" means, with respect to the Obligations as of any date, that, as of such date, (a) all principal of and interest accrued to such date which constitute Obligations shall have been paid in full in cash, (b) all fees, expenses and other amounts then due and payable which constitute Obligations shall have been paid in cash, (c) all outstanding Letters of Credit shall have been (i) terminated, (ii) fully Cash Collateralized or (iii) secured by one or more letters of credit on terms and conditions, and with one or more financial institutions, reasonably satisfactory to the applicable L/C Issuer and (d) the Commitments shall have expired or been terminated in full.

"GAAP" means generally accepted accounting principles in the United

States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination.

"GAAP Investment" means any Investment of the types specified in clauses (a) or (b) of the definition of the term "Investment" herein.

"Governmental Authority" means the government of the United States or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national bodies such as the European Union or the European Central Bank).

"Guarantee" means, as to any Person, (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit) to induce the creation of which the guaranteeing person has issued a reimbursement or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, reimbursement obligations under letters of credit and any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Borrower in good faith. The term "Guarantee" as a verb has a corresponding meaning.

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"Guarantors" means each Person identified as a "Guarantor" on the signature pages hereto (including L-3 Communications Holdings, Inc.) and each other Person that joins as a Guarantor pursuant to Section 7.09, together with their successors and permitted assigns.

"Guaranty" means the Guaranty made by the Guarantors in favor of the Administrative Agent and the Lenders pursuant to Article IV hereof.

"Guaranty Release Date" means the date the Guarantees of the Subsidiaries are released in accordance with the terms of Section 11.17.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Holdings" means L-3 Communications Holdings, Inc., a Delaware corporation.

"Immaterial Subsidiary" means, at any time, any Subsidiary which does not have assets exceeding 5.0% of the Consolidated Total Assets; provided however, that if any Subsidiary is a not a Wholly Owned Subsidiary, the assets of such Subsidiary to be included in the above calculation shall be reduced by the portion of the minority interest for such Subsidiary as reported in the Borrower's consolidated balance sheet; provided, further that for purposes of Section 9.01(f), any two or more Subsidiaries having aggregate assets of 5.0% or more of the Consolidated Total Assets (calculated, in the case of Non-Wholly Owned Subsidiaries, in accordance with the preceding proviso) shall not be considered Immaterial Subsidiaries.

"Indebtedness" means, as to any Person at a particular time, without duplication, all of the following, whether or not included as indebtedness or liabilities in accordance with GAAP:

(a) all obligations of such Person for borrowed money (including the Loans hereunder) or for the deferred purchase price of property or services to the extent, if any, reflected as a liability on the balance sheet of such Person in accordance with GAAP (other than current trade liabilities incurred in the ordinary course of business and payable in accordance with customary practices and accrued expenses incurred in the ordinary course of business);

(b) any other indebtedness of such Person which is evidenced by a note, bond, debenture or similar instrument;

(c) all obligations of such Person in respect of acceptances issued or created for the account of such Person and all reimbursement and other obligations with respect to any letters of credit (including the Letters of Credit hereunder) and surety bonds, whether or not matured or drawn;

(d) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof;

(e) the Attributable Indebtedness of such Person with respect to Capital Leases, Synthetic Lease Obligations and Securitization Transactions;

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(f) all obligations of such Person with respect to any Disqualified Preferred Stock; and

(g) all Guarantees of such Person in respect of any of the foregoing.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnitees" has the meaning specified in Section 11.04(b).

"Information" has the meaning specified in Section 11.07.

"Insolvent" means, with respect to any Multiemployer Plan, the meaning of such term provided in Section 4245 of ERISA.

"Intellectual Property" has the meaning specified in Section 6.09.

"Interest Payment Date" means, (a) as to any Loan other than a Base Rate Loan, the last day of each Interest Period applicable to such Loan and the Maturity Date; provided, however, that if any Interest Period for a Eurodollar Rate Loan exceeds three months, the respective dates that fall every three months after the beginning of such Interest Period shall also be Interest Payment Dates; and (b) as to any Base Rate Loan (including a Swing Line Loan), the last Business Day of each March, June, September and December and the Maturity Date.

"Interest Period" means, as to each Eurodollar Rate Loan, the period commencing on the date such Eurodollar Rate Loan is disbursed or converted to or continued as a Eurodollar Rate Loan and ending on the date one, two, three or six months thereafter, as selected by the Borrower in its Committed Loan Notice or nine or twelve months thereafter, as requested by the Borrower and consented to by all the Lenders; provided that:

(i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Business Day;

(ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and

(iii) no Interest Period shall extend beyond the Maturity Date.

"Investment" means, as to any Person, any direct or indirect acquisition or investment by such Person, whether by means of (a) the purchase or other acquisition of capital stock or other securities of another Person, (b) a loan, advance or capital contribution to, or purchase or other acquisition of any other debt or equity participation or interest in, another Person, including any partnership or joint venture interest in such other Person, or (c) the purchase or other acquisition (in one transaction or a series of transactions) of assets of another Person that constitute a division or business unit.

"IRS" means the United States Internal Revenue Service.

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"ISP" means, with respect to any standby Letter of Credit, the "International Standby Practices 1998" published by the Institute of International Banking Law & Practice (or such later version thereof as may be in effect at the time of issuance).

"Issuer Documents" means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by the applicable L/C Issuer and the Borrower (or any Subsidiary) or in favor of such L/C Issuer and relating to such Letter of Credit.

"Joinder Agreement" means a joinder agreement substantially in the form of Exhibit H executed and delivered by a direct or indirect Subsidiary (other than an Immaterial Subsidiary) in accordance with the provisions of Section 7.09.

"Laws" means as to any Person, any law, treaty, executive order, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

"L/C Advance" means, with respect to each Lender, such Lender's funding of its participation in any Unreimbursed Amount in accordance with its Applicable Percentage. All L/C Advances shall be denominated in Dollars.

"L/C Credit Extension" means, with respect to any Letter of Credit, the issuance thereof or extension of the expiry date thereof, or the increase of the amount thereof.

"L/C Issuer" means Bank of America in its capacity as issuer of Letters of Credit hereunder and any other Lender in its capacity as issuer of Letters of Credit hereunder who has been selected by the Borrower and who has agreed to act as an L/C Issuer hereunder in accordance with the terms hereof or any successor issuer of Letters of Credit that agrees to act as an L/C Issuer at the request of the Borrower and to whom the Administrative Agent consents (such consent not to be unreasonably withheld).

"L/C Obligations" means, as at any date of determination, the Dollar Equivalent of the aggregate amount available to be drawn under all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts. For purposes of computing the amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.08. For all purposes of this Agreement, if on any date of determination a standby Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"Lender" has the meaning specified in the introductory paragraph hereto and, as the context requires, includes the Swing Line Lender.

"Lending Office" means, as to any Lender, the office or offices of such Lender described as such in such Lender's Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Administrative Agent.

"Letter of Credit" means any letter of credit issued hereunder and shall include the Existing Letters of Credit. A Letter of Credit may be a standby Letter of Credit or a commercial Letter of Credit. Letters of Credit may be issued in Dollars or in an Alternative Currency.

"Letter of Credit Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by an L/C Issuer.

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"Letter of Credit Expiration Date" means the day that is five days prior to the Maturity Date (or, if such day is not a Business Day, the next preceding Business Day).

"Letter of Credit Fee" has the meaning specified in Section 2.03(i).

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any Capital Lease having substantially the same economic effect as any of the foregoing).

"Loan" means an extension of credit by a Lender to the Borrower under Article II in the form of a Committed Loan or a Swing Line Loan.

"Loan Documents" means this Agreement, each Note, each Issuer Document, the Collateral Documents and the Fee Letter, each as amended, modified, supplemented, extended, renewed, restated or substituted from time to time.

"Loan Parties" means, collectively, the Borrower and each Guarantor.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, property or condition (financial or otherwise) of Holdings, the Borrower and its Subsidiaries taken as a whole or (b) the validity or enforceability of this or any of the other Loan Documents or the rights or remedies of the Administrative Agent or the Lenders hereunder or thereunder.

"Materials of Environmental Concern" means any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under, or that could give rise to liability under, any applicable Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls, urea-formaldehyde insulation, gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products.

"Maturity Date" means March 9, 2010.

"Moody's" means Moody's Investors Service, Inc. and any successor thereto.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

"Net Proceeds" means (a): the aggregate cash proceeds (including Cash Equivalents) received by the Borrower or any of its Subsidiaries in respect of any conveyance, sale, lease, assignment, transfer or other disposition of property, business or assets (for the purposes of this definition, "Asset

Sale"), in each case net of (without duplication) (i) the amount required to repay any Indebtedness (other than the Loans) secured by a Lien on any assets of the Borrower or a Subsidiary that are sold or otherwise disposed of in connection with such Asset Sale and (ii) reasonable and appropriate amounts established by the Borrower or such Subsidiary, as the case may be, as a reserve against liabilities associated with such Asset Sale and retained by the Borrower or such Subsidiary, (iii) the reasonable expenses (including legal fees and brokers' and underwriters' commissions, lenders fees, credit enhancement fees, accountants' fees,

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investment banking fees, survey costs, title insurance premiums and other customary fees, in any case, paid to third parties or, to the extent permitted hereby, Affiliates) incurred in effecting such Asset Sale and (iv) any taxes reasonably attributable to such Asset Sale and reasonably estimated by the Borrower or such Subsidiary to be actually payable, and (b) any cash payments received in respect of promissory notes or other evidences of indebtedness delivered to the Borrower or such Subsidiary in respect of an Asset Sale.

"Non-Guarantor Subsidiary" means any Consolidated Subsidiary of the Borrower that is not a Guarantor.

"Non-Loan Party Operating Assets" means, as of any date of determination, the sum of (a) total assets of the Non-Guarantor Subsidiaries as determined according to the financial statements contained in the most recent SEC filing required by Section 7.01 minus (b) minority interests in Non-Guarantor Subsidiaries as determined according to the financial statements contained in the most recent SEC filing required by Section 7.01 plus (c) to the extent not otherwise included in clause (a) above, the aggregate amount of GAAP Investments of the Borrower, Holdings or any Consolidated Subsidiary in any Person that is not a Consolidated Subsidiary.

"Non-Wholly Owned Subsidiary" means any Subsidiary of the Borrower that is not a Wholly Owned Subsidiary.

"Nonconsenting Lender" has the meaning specified in Section 11.13.

"Note" means the Revolving Notes and the Swing Line Note, individually or collectively, as appropriate.

"Obligations" means all advances to, and debts, liabilities and obligations of, any Loan Party arising under any Loan Document or otherwise with respect to any Loan or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue after the commencement by or against any Loan Party or any Affiliate thereof of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding. "Obligations" shall also include any Swap Contract between any Loan Party and any Lender or Affiliate of a Lender and all obligations under any Treasury Management Agreement between any Loan Party and any Lender or an Affiliate of any Lender.

"Organization Documents" means, (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws (or equivalent or comparable constitutive documents with respect to any non-U.S. jurisdiction); (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization.

"Other Taxes" means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

"Outstanding Amount" means (i) with respect to Committed Loans on any date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of Committed Loans occurring on such date; (ii) with respect to Swing Line Loans on any

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date, the aggregate outstanding principal amount thereof after giving effect to any borrowings and prepayments or repayments of such Swing Line Loans occurring on such date; and (iii) with respect to any L/C Obligations on any date, the Dollar Equivalent of the aggregate outstanding amount of such L/C Obligations on such date after giving effect to any L/C Credit Extension occurring on such date and any other changes in the aggregate amount of the L/C Obligations as of such date, including as a result of any reimbursements by the Borrower of Unreimbursed Amounts.

"Overnight Rate" means, for any day, with respect to any amount denominated in Dollars, the greater of (a) the Federal Funds Rate and (b) an overnight rate determined by the Administrative Agent or the applicable L/C Issuer, as the case may be, in accordance with banking industry rules on interbank compensation.

"Participant" has the meaning specified in Section 11.06(d).

"PBGC" means the Pension Benefit Guaranty Corporation.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

"Performance Letter of Credit" means a standby Letter of Credit issued to ensure the performance of services and/or delivery of goods by or on behalf of the Borrower or any of its Subsidiaries.

"Permitted Liens" means those Liens permitted to exist pursuant to Section 8.01.

"Permitted Receivables Program" means any receivables securitization program pursuant to which the Borrower or any of the Subsidiaries sells accounts receivable and related receivables in a "true sale" transaction; provided, however, that any related Indebtedness incurred to finance the purchase of such accounts receivable does not exceed \$250,000,000 at any time outstanding and such Indebtedness is not includible on the balance sheet of the Borrower or any Subsidiary in accordance with GAAP and applicable regulations of the SEC.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any "employee benefit plan" (as such term is defined in Section 3(3) of ERISA) established by, maintained by or contributed to the Borrower.

"Platform" means Intralinks or another similar electronic system.

"Pledge Agreement" means that certain Pledge Agreement that may be executed and delivered pursuant to Section 7.08 by the Loan Parties and the Administrative Agent, substantially in the form of Exhibit C, as amended, modified, restated or supplemented from time to time.

"Pro Forma Basis" means, for purposes of calculating the financial covenants set forth in Section 8.08(a), (b) and (c), that any Acquisition shall be deemed to have occurred as of the first day of the most recent four fiscal quarter period preceding the date of such Acquisition for which the Borrower has delivered financial statements pursuant to Section 7.01. In connection with the foregoing, income

statement items attributable to the Person or property or assets acquired shall be included to the extent relating to any period applicable in such calculations to the extent (i) such items are not otherwise included in such income statement items for the Borrower and its Subsidiaries in accordance with GAAP or in accordance with any defined terms set forth in Section 1.01, (ii) such items are supported by financial statements or other information reasonably satisfactory to the Administrative Agent and (iii) any Indebtedness incurred or assumed by the Borrower or any Subsidiary (including the Person or property acquired) in connection with such Acquisition and any Indebtedness of the Person or property acquired which is not retired in connection with such Acquisition (A) shall be deemed to have been incurred as of the first day of the most recent four fiscal quarter period preceding the date for such Acquisition and (B) if such Indebtedness has a floating or formula rate, shall have an implied rate of interest for the most recent four fiscal quarter period preceding the date for such Acquisition for purposes of this definition determined by utilizing the rate which is or would be in effect with respect to such Indebtedness as at the relevant date of determination.

"Properties" has the meaning specified in Section 6.10.

"Ratings Agencies" means S&P, Moody's and Fitch and "Ratings Agency" means any one of them.

"Register" has the meaning specified in Section 11.06(c).

"Related Parties" means, with respect to any Person, such Person's Affiliates and the partners, directors, officers, employees, agents and advisors of such Person and of such Person's Affiliates.

"Reorganization" means, with respect to any Multiemployer Plan, has the meaning provided such term in Section 4241 of ERISA.

"Reportable Event" means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

"Request for Credit Extension" means (a) with respect to a Borrowing, conversion or continuation of Committed Loans, a Committed Loan Notice, (b) with respect to an L/C Credit Extension, a Letter of Credit Application, and (c) with respect to a Swing Line Loan, a Swing Line Loan Notice.

"Required Lenders" means, as of any date of determination, Lenders having more than 50% of the Aggregate Commitments or, if the commitment of each Lender to make Loans and the obligation of each L/C Issuer to make L/C Credit Extensions have been terminated pursuant to Section 9.02, Lenders holding in the aggregate more than 50% of the Total Outstandings (with the aggregate amount of each Lender's risk participation and funded participation in L/C Obligations and Swing Line Loans being deemed "held" by such Lender for purposes of this definition); provided that the Commitment of, and the portion of the Total Outstandings held or deemed held by, any Defaulting Lender shall be excluded for purposes of making a determination of Required Lenders.

"Required Prepayment Date" has the meaning specified in Section 8.05(k).

"Responsible Officer" means the chief executive officer, president, senior vice president, vice president, controller, chief financial officer, treasurer or assistant treasurer of a Loan Party. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

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"Restricted Payment" means any dividend or other distribution (whether in cash, securities or other property) with respect to any capital stock, other Equity Interest or any Disqualified Preferred Stock of the Borrower or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition of any such capital stock, other Equity Interest or any such Disqualified Preferred Stock or, or on account of any return of capital to the Borrower's stockholders, partners or members (or the equivalent Person thereof).

"Revaluation Date" means, with respect to any Letter of Credit, each of the following: (i) each date of issuance of a Letter of Credit denominated in an Alternative Currency, (ii) each date of an amendment of any such Letter of Credit having the effect of increasing the amount thereof (solely with respect to the increased amount), (iii) each date of any payment by an L/C Issuer under any Letter of Credit denominated in an Alternative Currency, (iv) in the case of any Existing Letters of Credit denominated in an Alternative Currency, the Closing Date, (v) such other dates as the Borrower may reasonably request from time to time and (vi) such other dates as the applicable L/C Issuer or the Administrative Agent shall require provided that the Borrower receives prompt notice thereof.

"Revolving Note" has the meaning specified in Section 2.11.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. and any successor thereto.

"SEC" means the Securities and Exchange Commission, or any Governmental Authority succeeding to any of its principal functions.

"Securitization Transaction" means any financing transaction or series of financing transactions (including factoring arrangements) pursuant to which the Borrower or any Subsidiary may sell, convey or otherwise transfer, or grant a security interest in, accounts, payments, receivables, rights to future lease payments or residuals or similar rights to payment to a special purpose Subsidiary or Affiliate of the Borrower.

"Similar Business" means a business, at least a majority of whose revenues in the most recently ended calendar year were derived from (a) the sale of defense or homeland security products, electronics, communications systems, aerospace products, avionics products and/or communications products, (b) any services related thereto, (c) any business of the Borrower and/or its Subsidiaries existing as of the Closing Date, (d) any business or activity that is reasonably similar thereto or a reasonable extension, development or expansion thereof or ancillary thereto and (e) any combination of any of the foregoing.

"Single Employer Plan" means any Pension Plan maintained solely by Holdings, the Borrower or any ERISA Affiliates.

"Spot Rate" for any Alternative Currency on any date means the rate quoted by the applicable L/C Issuer as the spot rate for the purchase by such L/C Issuer of such Alternative Currency with Dollars through its principal foreign exchange trading office at approximately 11:00 a.m. on the date two Business Days prior to such date; provided that, if agreed to by the Borrower, such L/C Issuer may obtain such spot rate from another financial institution designated by such L/C Issuer if the Person acting in such capacity does not have as of the date of determination a spot buying rate for any such Alternative Currency; and provided further that such L/C Issuer may use such spot rate quoted on the date as of which the foreign exchange computation is made in the case of any Letter of Credit denominated in an Alternative Currency.

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"Subordinated Debt" means the Existing Subordinated Debt and any Additional Subordinated Debt.

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which the shares of stock or other interests having ordinary voting power for the election of a majority of the board of directors or other governing body (other than stock or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, directly, or indirectly through one or more intermediaries, or both, by such Person. Unless otherwise specified, all references herein to a "Subsidiary" or to "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of the Borrower.

"Swap Contract" means any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or

forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement.

"Swap Contract Obligations" means the obligations of the Borrower or any of its Subsidiaries to make payments to counterparties under Swap Contracts in the event of the occurrence of a termination event thereunder.

"Swing Line" means the revolving credit facility made available by the Swing Line Lender pursuant to Section 2.04.

"Swing Line Borrowing" means a borrowing of a Swing Line Loan pursuant to Section 2.04.

"Swing Line Lender" means Bank of America in its capacity as provider of Swing Line Loans, or any successor swing line lender hereunder.

"Swing Line Loan" has the meaning specified in Section 2.04(a).

"Swing Line Loan Notice" means a notice of a Swing Line Borrowing pursuant to Section 2.04(b), which, if in writing, shall be substantially in the form of Exhibit B.

"Swing Line Note" has the meaning specified in Section 2.11.

"Swing Line Sublimit" means an amount equal to the lesser of (a) \$50,000,000 and (b) the Aggregate Commitments. The Swing Line Sublimit is part of, and not in addition to, the Aggregate Commitments.

"Synthetic Lease Obligation" means the monetary obligation of a Person under a so-called synthetic or off-balance sheet lease which, upon the insolvency or bankruptcy of such Person, would be characterized as the indebtedness of such Person (without regard to accounting treatment).

"Taxes" means all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

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"Threshold Amount" means \$40,000,000.

"Total Assets" means, as of any date of determination, the sum of (a) total assets of Holdings, the Borrower and its Consolidated Subsidiaries as determined according to the financial statements contained in the most recent SEC filing required by Section 7.01 minus (b) minority interests in Non-Guarantor Subsidiaries as determined according to the financial statements contained in the most recent SEC filing required by Section 7.01 minus (c) the net book value (as determined according to the financial statements contained in the most recent SEC filing required by Section 7.01) of all assets of Holdings that are subject to a Lien not in favor of (i) the Administrative Agent for the benefit of the holders of the Obligations or (ii) the Borrower.

"Total Outstandings" means the aggregate Outstanding Amount of all Loans and all L/C Obligations.

"Treasury Management Agreement" means any agreement governing the provision of treasury or cash management services, including deposit accounts, funds transfer, automated clearinghouse, zero balance accounts, returned check concentration, controlled disbursement, lockbox, account reconciliation and reporting and trade finance services.

"Type" means, with respect to a Committed Loan, its character as a Base Rate Loan or a Eurodollar Rate Loan.

"UCP" means the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

"Unfunded Pension Liability" means the excess of a Pension Plan's benefit liabilities under Section 4001(a)(16) of ERISA, over the current value of that Pension Plan's assets, determined in accordance with the assumptions used for funding the Pension Plan pursuant to Section 412 of the Code for the applicable plan year.

"United States" and "U.S." mean the United States of America.

"Unreimbursed Amount" has the meaning specified in Section 2.03(c)(i).

"Voting Stock" means, of any Person, as of any date, the Equity Interest of such Person that is at the time entitled to vote in the election of the board of directors of such Person.

"Wholly Owned Subsidiary" means a Subsidiary of the Borrower, the Equity Interest of which is 100% owned and controlled, directly or indirectly, by the Borrower.

"2004 Indenture" means that certain Indenture dated as of November 12, 2004 between the Borrower and The Bank of New York, as trustee, as such Indenture may be amended, modified, restated or supplemented and in effect from time to time in accordance with the terms hereof and thereof.

"2004 Senior Subordinated Notes" means those certain 5 7/8% guaranteed senior subordinated notes due January 15, 2015 issued by the Borrower under the 2004 Indenture in the original principal amount of \$650,000,000, together with any note issued in exchange or substitution therefor, as the same may be amended, modified or supplemented from time to time in accordance with the terms hereof and thereof.

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"2004 Senior Subordinated Note Documents" means the 2004 Senior Subordinated Notes and the 2004 Indenture.

1.02 OTHER INTERPRETIVE PROVISIONS.

With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns, (iii) the words "herein," "hereof" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words "asset" and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including;" the words "to" and "until" each mean "to but excluding;" and the word "through" means "to and including."

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

1.03 ACCOUNTING TERMS.

(a) Generally. All accounting terms not specifically or completely defined herein shall be construed in conformity with, and all financial data (including financial ratios and other financial calculations) required to be submitted pursuant to this Agreement shall be prepared in conformity with, GAAP, as in effect from time to time, applied consistently throughout the periods reflected therein, except as otherwise specifically prescribed herein. For the avoidance of doubt, any obligations or liabilities of a Person which are identified in footnote disclosures but not the balance sheet of such Person shall not be considered liabilities on the balance sheet of such Person under GAAP.

(b) Changes in GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the

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Required Lenders shall so request, the Administrative Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of the Required Lenders); provided that, until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) if a request for such an amendment has been made, the Borrower shall provide to the Administrative Agent and the Lenders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

(c) Pro Forma Basis Calculation. Notwithstanding the foregoing, the parties hereto acknowledge and agree that all calculations of the Consolidated Interest Coverage Ratio, Consolidated Leverage Ratio and the Consolidated Senior Leverage Ratio for purposes of determining compliance with Section 8.08(a), (b) and (c) shall be made on a Pro Forma Basis.

1.04 ROUNDING.

Any financial ratios required to be maintained by the Borrower pursuant

to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

1.05 EXCHANGE RATES; CURRENCY EQUIVALENTS.

The applicable L/C Issuer shall determine the Spot Rates as of each Revaluation Date to be used for calculating Dollar Equivalent amounts of L/C Credit Extensions and Outstanding Amounts denominated in Alternative Currencies. Such Spot Rates shall become effective as of such Revaluation Date and shall be the Spot Rates employed in converting any amounts between the applicable currencies until the next Revaluation Date to occur. Except for purposes of financial statements delivered by Loan Parties hereunder or calculating financial covenants hereunder or except as otherwise provided herein, the applicable amount of any currency (other than Dollars) for purposes of the Loan Documents shall be such Dollar Equivalent amount as so determined by the applicable L/C Issuer.

1.06 ADDITIONAL ALTERNATIVE CURRENCIES.

Any request for a Letter of Credit in a currency not otherwise specified in the definition of "Alternative Currency" shall be made to the Administrative Agent not later than 11:00 a.m., five (5) Business Days prior to the date of the desired L/C Credit Extension (or such other time or date as may be agreed by the Administrative Agent and the applicable L/C Issuer, in their sole discretion). In the case of any such request, the Administrative Agent shall promptly notify such L/C Issuer thereof. Such L/C Issuer shall notify the Administrative Agent, not later than 11:00 a.m., two Business Days after receipt of such request whether it consents to the issuance of Letters of Credit in such requested currency and, if such L/C Issuer so consents, such currency shall thereupon be deemed with respect to such L/C Issuer, an Alternative Currency. Any failure by the applicable L/C Issuer to respond to such request within the time period specified in the preceding sentence shall be deemed to be a refusal by such L/C Issuer to permit Letters of Credit to be issued in such requested currency. The Administrative Agent shall promptly notify the Borrower of the applicable L/C Issuer's response to any request pursuant to this Section 1.06.

1.07 TIMES OF DAY.

Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

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1.08 LETTER OF CREDIT AMOUNTS.

Unless otherwise specified herein, the amount of a Letter of Credit at any time shall be deemed to be the stated amount of such Letter of Credit in effect at such time; provided, however, that with respect to any Letter of Credit that, by its terms or the terms of any Issuer Document related thereto, provides for one or more automatic increases in the stated amount thereof, the amount of such Letter of Credit shall be deemed to be the maximum stated amount of such Letter of Credit after giving effect to all such increases, whether or not such maximum stated amount is in effect at such time.

ARTICLE II THE COMMITMENTS AND CREDIT EXTENSIONS

2.01 COMMITTED LOANS.

Subject to the terms and conditions set forth herein, each Lender severally agrees to make loans (each such loan, a "Committed Loan") to the Borrower in Dollars from time to time, on any Business Day during the Availability Period, in an aggregate amount not to exceed at any time outstanding the amount of such Lender's Commitment; provided, however, that after giving effect to any Committed Borrowing, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the Committed Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment. Within the limits of each Lender's Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01, prepay under Section 2.05, and reborrow under this Section 2.01. Committed Loans may be Base Rate Loans or Eurodollar Rate Loans, as further provided herein.

2.02 BORROWINGS, CONVERSIONS AND CONTINUATIONS OF COMMITTED LOANS.

(a) Each Committed Borrowing, each conversion of Committed Loans from one Type to the other, and each continuation of Eurodollar Rate Loans shall be made upon the Borrower's irrevocable notice to the Administrative Agent, which may be given by telephone. Each such notice must be received by the Administrative Agent not later than 11:00 a.m. (i) three Business Days prior to the requested date of any Borrowing of, conversion to or continuation of Eurodollar Rate Loans and (ii) on the requested date of any Borrowing of Base Rate Committed Loans. Each telephonic notice by the Borrower pursuant to this Section 2.02(a) must be confirmed promptly by delivery to the Administrative Agent of a written Committed Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Each Borrowing of, conversion to or continuation of Eurodollar Rate Loans shall be in a principal amount of \$5,000,000 or a whole multiple of \$1,000,000 in excess thereof. Each Borrowing of or conversion to Base Rate Committed Loans shall be in a principal amount of \$2,000,000 or a whole multiple of \$100,000 in excess thereof. Each Committed Loan Notice (whether telephonic or written) shall specify (i) whether the Borrower is requesting a Committed Borrowing, a conversion of Committed Loans from one Type to the other, or a continuation of Eurodollar Rate Loans, (ii) the requested

date of the Borrowing, conversion or continuation, as the case may be (which shall be a Business Day), (iii) the principal amount of Committed Loans to be borrowed, converted or continued, (iv) the Type of Committed Loans to be borrowed or to which existing Committed Loans are to be converted, and (v) if applicable, the duration of the Interest Period with respect thereto. If the Borrower fails to specify a Type of Committed Loan in a Committed Loan Notice or if the Borrower fails to give a timely notice requesting a conversion or continuation, then the applicable Committed Loans shall be made as, or converted to, Base Rate Loans. Any such automatic conversion to Base Rate Loans shall be effective as of the last day of the Interest Period then in effect with respect to the applicable Eurodollar Rate Loans. If

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the Borrower requests a Borrowing of, conversion to, or continuation of Eurodollar Rate Loans in any such Committed Loan Notice, but fails to specify an Interest Period, it will be deemed to have specified an Interest Period of one month.

(b) Following receipt of a Committed Loan Notice, the Administrative Agent shall promptly notify each Lender of the amount of its Applicable Percentage of the applicable Committed Loans, and if no timely notice of a conversion or continuation is provided by the Borrower, the Administrative Agent shall notify each Lender of the details of any automatic conversion to Base Rate Loans described in the preceding Section. In the case of a Committed Borrowing, each Lender shall make the amount of its Committed Loan available to the Administrative Agent in immediately available funds at the Administrative Agent's Office not later than 1:00 p.m. on the Business Day specified in the applicable Committed Loan Notice. Upon satisfaction of the applicable conditions set forth in Section 5.02 (and, if such Borrowing is the initial Credit Extension, Section 5.01), the Administrative Agent shall make all funds so received available to the Borrower in like funds as received by the Administrative Agent either by (i) crediting the account of the Borrower on the books of Bank of America with the amount of such funds or (ii) wire transfer of such funds, in each case in accordance with instructions provided to (and reasonably acceptable to) the Administrative Agent by the Borrower.

(c) Except as otherwise provided herein, a Eurodollar Rate Loan may be continued or converted only on the last day of an Interest Period for such Eurodollar Rate Loan.

(d) The Administrative Agent shall promptly notify the Borrower and the Lenders of the interest rate applicable to any Interest Period for Eurodollar Rate Loans upon determination of such interest rate. At any time that Base Rate Loans are outstanding, the Administrative Agent shall notify the Borrower and the Lenders of any change in Bank of America's prime rate used in determining the Base Rate promptly following the public announcement of such change.

(e) After giving effect to all Committed Borrowings, all conversions of Committed Loans from one Type to the other, and all continuations of Committed Loans as the same Type, there shall not be more than twenty Interest Periods in effect with respect to Committed Loans.

2.03 LETTERS OF CREDIT.

(a) The Letter of Credit Commitment.

(i) Subject to the terms and conditions set forth herein, (A) each L/C Issuer agrees, in reliance upon the agreements of the Lenders set forth in this Section 2.03, (1) from time to time on any Business Day during the period from the Closing Date until the Letter of Credit Expiration Date, to issue Letters of Credit denominated in Dollars or in an Alternative Currency for the account of the Borrower, and to amend or extend Letters of Credit previously issued by it, in accordance with subsection (b) below, and (2) to honor drawings under the Letters of Credit; and (B) the Lenders severally agree to participate in Letters of Credit issued for the account of the Borrower and any drawings thereunder; provided that after giving effect to any L/C Credit Extension with respect to any Letter of Credit, (x) the Total Outstandings shall not exceed the Aggregate Commitments and (y) the aggregate Outstanding Amount of the Committed Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment. Each request by the Borrower for the issuance or amendment of a Letter of Credit shall be deemed to be a representation by the Borrower that the L/C Credit Extension so requested complies with the conditions set forth in the proviso to the preceding sentence. Within the foregoing limits, and subject to the terms and

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conditions hereof, the Borrower's ability to obtain Letters of Credit shall be fully revolving, and accordingly the Borrower may, during the foregoing period, obtain Letters of Credit to replace Letters of Credit that have expired or that have been drawn upon and reimbursed. All Existing Letters of Credit shall be deemed to have been issued pursuant hereto, and from and after the Closing Date shall be subject to and governed by the terms and conditions hereof.

(ii) No L/C Issuer shall issue any Letter of Credit, if the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(iii) No L/C Issuer shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain the applicable L/C Issuer from issuing such Letter of Credit, or any Law applicable to the applicable L/C Issuer or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over the applicable L/C Issuer shall prohibit, or request that the applicable L/C Issuer refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon the applicable L/C Issuer with respect to such Letter of Credit any restriction, reserve or capital requirement (for which the applicable L/C Issuer is not otherwise compensated hereunder) not in effect on the Closing Date, or shall impose upon the applicable L/C Issuer any unreimbursed loss, cost or expense which was not applicable on the Closing Date and which the applicable L/C Issuer in good faith deems material to it;

(B) the issuance of such Letter of Credit would violate one or more policies of the applicable L/C Issuer; or

(C) except as otherwise agreed by the Administrative Agent and the applicable L/C Issuer, such Letter of Credit is to be denominated in a currency other than Dollars or an Alternative Currency.

(iv) No L/C Issuer shall be under any obligation to amend any Letter of Credit if (A) the applicable L/C Issuer would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(v) Each L/C Issuer shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each L/C Issuer shall have all of the benefits and immunities (A) provided to the Administrative Agent in Article X with respect to any acts taken or omissions suffered by such L/C Issuer in connection with Letters of Credit issued by it or proposed to be issued by it and Issuer Documents pertaining to such Letters of Credit as fully as if the term "Administrative Agent" as used in Article X included such L/C Issuer with respect to such acts or omissions, and (B) as additionally provided herein with respect to such L/C Issuer.

(b) Procedures for Issuance and Amendment of Letters of Credit;
Auto-Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the applicable L/C Issuer (with a copy to the Administrative

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Agent) in the form of a Letter of Credit Application, appropriately completed and signed by a Responsible Officer of the Borrower. Such Letter of Credit Application must be received by the applicable L/C Issuer and the Administrative Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the Administrative Agent and the applicable L/C Issuer may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail reasonably satisfactory to the applicable L/C Issuer: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount and requested currency thereof and in the absence of specification of currency shall be deemed a request for a Letter of Credit denominated in Dollars; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; and (G) such other matters as the applicable L/C Issuer may reasonably require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail reasonably satisfactory to the applicable L/C Issuer (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as the applicable L/C Issuer may reasonably require. Additionally, the Borrower shall furnish to the applicable L/C Issuer and the Administrative Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any Issuer Documents, as the applicable L/C Issuer or the Administrative Agent may reasonably require.

(ii) Promptly after receipt of any Letter of Credit Application, the applicable L/C Issuer will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, the applicable L/C Issuer will provide the Administrative Agent with a copy thereof and inform the Administrative Agent whether such Letter of Credit Application is for a Financial Letter of Credit, a Performance Letter of Credit or a commercial Letter of Credit. Unless the applicable L/C Issuer has received written notice from any Lender, the Administrative Agent or any Loan Party, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Section

5.02 shall not then be satisfied, then, subject to the terms and conditions hereof, the applicable L/C Issuer shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with the applicable L/C Issuer's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the applicable L/C Issuer a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Applicable Percentage times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the applicable L/C Issuer may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit the applicable L/C Issuer to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the applicable L/C Issuer, the Borrower shall not be required to make a specific request to the applicable L/C Issuer for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be

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deemed to have authorized (but may not require) the applicable L/C Issuer to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the applicable L/C Issuer shall not permit any such extension if (A) the applicable L/C Issuer has determined that it would not be permitted, or would have no obligation, at such time to issue such Letter of Credit in its revised form (as extended) under the terms hereof (by reason of the provisions of clause (ii) or (iii) of Section 2.03(a) or otherwise), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is five Business Days before the Non-Extension Notice Date from the Administrative Agent, any Lender or the Borrower that one or more of the applicable conditions specified in Section 5.02 is not then satisfied, and in each such case directing the applicable L/C Issuer not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the applicable L/C Issuer will also deliver to the Borrower and the Administrative Agent a true and complete copy of such Letter of Credit or amendment. Each L/C Issuer shall provide the Administrative Agent with a written update on a monthly basis of the outstanding Letters of Credit for which it is the L/C Issuer, and the Administrative Agent shall promptly send a copy of each such update to the Borrower upon its receipt.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Upon receipt from the beneficiary of any Letter of Credit of any notice of a drawing under such Letter of Credit, the applicable L/C Issuer shall notify the Borrower and the Administrative Agent thereof, including, in the case of a Letter of Credit denominated in an Alternative Currency, both the Alternative Currency amount of such drawing and the estimated Dollar Equivalent thereof. In the case of a Letter of Credit denominated in an Alternative Currency, the Borrower shall reimburse the applicable L/C Issuer in Dollars in the Dollar Equivalent of the amount of the applicable drawing in such Alternative Currency as so notified by the applicable L/C Issuer; provided, that, with respect to any reimbursement obligations of the Borrower arising from the presentment to the applicable L/C Issuer of a draft under a Letter of Credit denominated in an Alternative Currency, the Borrower may make payment in the applicable Alternative Currency if such payment is received by the applicable L/C Issuer on the date such draft is paid by the applicable L/C Issuer. Not later than 3:00 p.m. on the date of any payment by the applicable L/C Issuer under a Letter of Credit if the applicable L/C Issuer delivers notice of such payment by 11:00 a.m. on such day (or, if notice of such payment by the applicable L/C Issuer is delivered after 11:00 a.m., not later than 10:00 a.m. the next succeeding Business Day) (each such date, an "Honor Date"), the Borrower shall reimburse the applicable L/C Issuer in an amount equal to the amount of such drawing. If the Borrower fails to so reimburse the LC Issuer by the time set forth in the preceding sentence, the applicable L/C Issuer shall promptly notify the Administrative Agent of the Honor Date and the amount of the unreimbursed drawing shall become the unreimbursed amount (the "Unreimbursed Amount"). The Administrative Agent shall promptly notify each Lender of the Honor Date, the Unreimbursed Amount, and the amount of such Lender's Applicable Percentage thereof. Any notice given by the applicable L/C Issuer or the Administrative Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Administrative Agent for the account of the applicable L/C Issuer, in Dollars, at the Administrative Agent's Office in an amount equal to its Applicable Percentage of the

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Unreimbursed Amount not later than 1:00 p.m. on the Business Day specified in such notice by the Administrative Agent. The Administrative Agent shall remit the funds so received to the applicable L/C Issuer in Dollars.

(iii) Any Unreimbursed Amount shall be due and payable on demand and shall bear interest at (A) the rate applicable to Base Rate Loans from the Honor Date to the date of reimbursement is required pursuant to Section 2.03(c)(i) and (B) thereafter, the Default Rate. Each Lender's payment to the Administrative Agent for the account of the applicable L/C Issuer pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such Unreimbursed Amount and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its L/C Advance pursuant to this Section 2.03(c) to reimburse the applicable L/C Issuer for any amount drawn under any Letter of Credit, interest in respect of such Lender's Applicable Percentage of such amount shall be solely for the account of the applicable L/C Issuer.

(v) Each Lender's obligation to make L/C Advances to reimburse the applicable L/C Issuer for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the applicable L/C Issuer, the Borrower, any Subsidiary or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing. No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the applicable L/C Issuer for the amount of any payment made by the applicable L/C Issuer under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Administrative Agent for the account of the applicable L/C Issuer any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), the applicable L/C Issuer shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the applicable L/C Issuer at a rate per annum equal to the applicable Overnight Rate from time to time in effect. A certificate of the applicable L/C Issuer submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the applicable L/C Issuer has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Administrative Agent receives for the account of the applicable L/C Issuer any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral applied thereto by the Administrative Agent), the Administrative Agent will distribute to such Lender its Applicable Percentage thereof (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's L/C Advance was outstanding) in the same funds as those received by the Administrative Agent.

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(ii) If any payment received by the applicable L/C Issuer pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 11.05 (including pursuant to any settlement entered into by the applicable L/C Issuer in its discretion), each Lender shall pay to the Administrative Agent for the account of the applicable L/C Issuer its Applicable Percentage thereof on demand of the Administrative Agent (on behalf of the applicable L/C Issuer), plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Obligations Absolute.

(i) The obligation of the Borrower to reimburse the applicable L/C Issuer for each drawing under each Letter of Credit and to repay each Unreimbursed Amount shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the applicable L/C Issuer, any Lender or any beneficiary of a Letter of Credit.

(ii) The Borrower also agrees with the L/C Issuers that the L/C Issuers, the Administrative Agent and their respective Related Parties shall not be responsible for, and the Borrower's obligation to reimburse the applicable L/C Issuer for each drawing under each Letter of Credit and to repay each Unreimbursed Amount shall not be affected by, among other things, (i) the validity or genuineness of documents or of any endorsements thereon (or any other instrument transferring or assigning such Letter of Credit), even though such documents shall in fact prove to

be invalid, fraudulent or forged (unless the applicable L/C Issuer has actual knowledge of such invalidity, fraud or forgery), (ii) any dispute between or among the Borrower and any beneficiary of any Letter of Credit or any other party to which such Letter of Credit may be transferred, or (iii) any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee.

(iii) Neither the applicable L/C Issuer, nor any Lender, nor, the Administrative Agent and their respective Related Parties shall be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit, except for errors or omissions caused by the applicable L/C Issuer's gross negligence or willful misconduct.

(iv) The Borrower agrees that any action taken or omitted by the applicable L/C Issuer under or in connection with any Letter of Credit or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the Uniform Commercial Code of the State of New York, shall be binding on the Borrower and shall not result in any liability of the applicable L/C Issuer, the Administrative Agent, any Lender or any of their respective Related Parties to the Borrower.

(v) If any draft shall be presented for payment under any Letter of Credit, the responsibility of the applicable L/C Issuer to the Borrower in connection with such draft shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment appear on their face to be in conformity with such Letter of Credit.

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The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity, the Borrower will promptly notify the applicable L/C Issuer. The Borrower shall be conclusively deemed to have waived any such claim against the applicable L/C Issuer and its correspondents unless such notice is given as aforesaid.

(f) Role of L/C Issuer. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the applicable L/C Issuer shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or ascertain or inquire as to the authority of the Person executing or delivering any such document. None of the applicable L/C Issuer, the Administrative Agent, any of their respective Related Parties nor any correspondent, participant or assignee of the applicable L/C Issuer shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or Issuer Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at law or under any other agreement. Notwithstanding anything in clauses (i) through (v) of Section 2.03(e) to the contrary, the Borrower may have a claim against the applicable L/C Issuer, and the applicable L/C Issuer may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which were caused by the applicable L/C Issuer's willful misconduct or gross negligence or the applicable L/C Issuer's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit.

(g) Cash Collateral.

(i) Upon the request of the Administrative Agent, (A) if the applicable L/C Issuer has honored any full or partial drawing request under any Letter of Credit and such drawing has resulted in an Unreimbursed Amount, or (B) if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, within two Business Days of the occurrence of any event in (A) or (B) above, Cash Collateralize the then Outstanding Amount of all L/C Obligations.

(ii) In addition, if the Administrative Agent notifies the Borrower at any time that the Outstanding Amount of all L/C Obligations at such time exceeds 102% of the Aggregate Commitments then in effect, then, within two Business Days after receipt of such notice, the Borrower shall Cash Collateralize the L/C Obligations in an amount equal to the amount by which the Outstanding Amount of all L/C Obligations exceeds the Aggregate Commitments then in effect.

(iii) Sections 2.05(c) and 9.02(c) set forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03(g), Section 2.05(c) and Section 9.02(c), "Cash Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, for the benefit of the applicable L/C Issuer and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance reasonably satisfactory to the Administrative Agent (which documents are hereby consented to by the Lenders). Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Administrative

security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked deposit accounts at Bank of America.

(h) Applicability of ISP or UCP. Unless otherwise expressly agreed by the applicable L/C Issuer and the Borrower when a standby Letter of Credit is issued (including any such agreement applicable to an Existing Letter of Credit), the rules of the ISP shall apply to such Letter of Credit, and when a commercial Letter of Credit is issued, the rules of the UCP shall apply to such commercial Letter of Credit and, in either case, to the extent not inconsistent therewith and if requested by the Borrower in the applicable Letter of Credit Application, the laws of the State of New York.

(i) Letter of Credit Fees. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage a Letter of Credit fee (the "Letter of Credit Fee") for each Letter of Credit equal to the Applicable Rate times the daily amount available to be drawn under such Letter of Credit. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.08. Letter of Credit Fees shall be (i) computed on a quarterly basis in arrears and (ii) due and payable on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. If there is any change in the Applicable Rate during any quarter, the daily amount available to be drawn under each Letter of Credit shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(j) Fronting Fee and Documentary and Processing Charges Payable to L/C Issuer. The Borrower shall pay directly to each L/C Issuer for its own account a fronting fee with respect to each Letter of Credit issued by such L/C Issuer, at a rate per annum, in the case of Bank of America, in its capacity as L/C Issuer, specified in the Fee Letter and in the case of any other L/C Issuer, as may be agreed upon between the Borrower and such L/C Issuer, computed on the daily amount available to be drawn under such Letter of Credit on a quarterly basis in arrears. Such fronting fee shall be due and payable on the last Business Day of each March, June, September and December in respect of the most recently-ended quarterly period (or portion thereof, in the case of the first payment), commencing with the first such date to occur after the issuance of such Letter of Credit, on the Letter of Credit Expiration Date and thereafter on demand. For purposes of computing the daily amount available to be drawn under any Letter of Credit, the amount of such Letter of Credit shall be determined in accordance with Section 1.08. In addition, the Borrower shall pay directly to each L/C Issuer for its own account the customary issuance, presentation, amendment and other processing fees, and other standard costs and charges, of such L/C Issuer relating to letters of credit as from time to time in effect. Such customary fees and standard costs and charges are due and payable on demand and are nonrefundable.

(k) Conflict with Issuer Documents. In the event of any conflict between the terms hereof and the terms of any Issuer Document, the terms hereof shall control.

(l) Determination of Exchange Rate. On each Revaluation Date with respect to each outstanding Letter of Credit denominated in an Alternative Currency, the applicable L/C Issuer shall determine the Spot Rate as of such Revaluation Date with respect to the applicable Alternative Currency and shall promptly notify the Administrative Agent and the Borrower thereof and of the Dollar Equivalent of all Letters of Credit denominated in such Alternative Currency outstanding on such Revaluation Date. The Spot Rate so determined shall become effective on such Revaluation Date and shall remain effective until the next succeeding Revaluation Date.

2.04 SWING LINE LOANS.

(a) The Swing Line. Subject to the terms and conditions set forth herein, the Swing Line Lender agrees, in reliance upon the agreements of the other Lenders set forth in this Section 2.04, to make loans (each such loan, a "Swing Line Loan") to the Borrower from time to time on any Business Day during the Availability Period in an aggregate amount not to exceed at any time outstanding the amount of the Swing Line Sublimit, notwithstanding the fact that such Swing Line Loans, when aggregated with the Applicable Percentage of the Outstanding Amount of Committed Loans and L/C Obligations of the Lender acting as Swing Line Lender, may exceed the amount of such Lender's Commitment; provided, however, that after giving effect to any Swing Line Loan, (i) the Total Outstandings shall not exceed the Aggregate Commitments, and (ii) the aggregate Outstanding Amount of the Committed Loans of any Lender, plus such Lender's Applicable Percentage of the Outstanding Amount of all L/C Obligations, plus such Lender's Applicable Percentage of the Outstanding Amount of all Swing Line Loans shall not exceed such Lender's Commitment, and provided, further, that the Borrower shall not use the proceeds of any Swing Line Loan to refinance any outstanding Swing Line Loan. Within the foregoing limits, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.04, prepay under Section 2.05, and reborrow under this Section 2.04. Each Swing Line Loan shall be a Base Rate Loan. Immediately upon the making of a Swing Line Loan, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from the Swing Line Lender a risk participation in such Swing Line Loan in an amount equal to the product of such Lender's Applicable Percentage times

the amount of such Swing Line Loan.

(b) Borrowing Procedures. Each Swing Line Borrowing shall be made upon the Borrower's irrevocable notice to the Swing Line Lender and the Administrative Agent, which may be given by telephone. Each such notice must be received by the Swing Line Lender and the Administrative Agent not later than 3:00 p.m. on the requested borrowing date, and shall specify (i) the amount to be borrowed, which shall be a minimum of \$500,000, and (ii) the requested borrowing date, which shall be a Business Day. Each such telephonic notice must be confirmed promptly by delivery to the Swing Line Lender and the Administrative Agent of a written Swing Line Loan Notice, appropriately completed and signed by a Responsible Officer of the Borrower. Promptly after receipt by the Swing Line Lender of any telephonic Swing Line Loan Notice, the Swing Line Lender will confirm with the Administrative Agent (by telephone or in writing) that the Administrative Agent has also received such Swing Line Loan Notice and, if not, the Swing Line Lender will notify the Administrative Agent (by telephone or in writing) of the contents thereof. Unless the Swing Line Lender has received notice (by telephone or in writing) from the Administrative Agent (including at the request of any Lender) prior to 2:00 p.m. on the date of the proposed Swing Line Borrowing (A) directing the Swing Line Lender not to make such Swing Line Loan as a result of the limitations set forth in the proviso to the first sentence of Section 2.04(a), or (B) that one or more of the applicable conditions specified in Section 5.02 is not then satisfied, then, subject to the terms and conditions hereof, the Swing Line Lender will, not later than 3:00 p.m. on the borrowing date specified in such Swing Line Loan Notice, make the amount of its Swing Line Loan available to the Borrower.

(c) Participations in Swing Line Loans.

(i) The Swing Line Lender at any time in its sole and absolute discretion may request in writing that each Lender fund its risk participation in any Swing Line Loan. Upon receipt of such request, each Lender shall make an amount equal to its Applicable Percentage of the amount of the applicable Swing Line Loan specified in such written request available to the Administrative Agent in immediately available funds for the account of the Swing Line Lender at the Administrative Agent's Office not later than 1:00 p.m. on the day specified in such request. The Administrative Agent shall remit the funds so received to the Swing Line Lender.

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(ii) If any Lender fails to make available to the Administrative Agent for the account of the Swing Line Lender any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.04(c) by the time specified in Section 2.04(c)(i), the Swing Line Lender shall be entitled to recover from such Lender (acting through the Administrative Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to the Swing Line Lender at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by the Swing Line Lender in accordance with banking industry rules on interbank compensation. A certificate of the Swing Line Lender submitted to any Lender (through the Administrative Agent) with respect to any amounts owing under this clause (ii) shall be conclusive absent manifest error.

(iii) Each Lender's obligation to purchase and fund risk participations in Swing Line Loans pursuant to this Section 2.04(c) shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against the Swing Line Lender, the Borrower or any other Person for any reason whatsoever, (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing. No such funding of risk participations shall relieve or otherwise impair the obligation of the Borrower to repay Swing Line Loans, together with interest as provided herein.

(d) Repayment of Participations.

(i) At any time after any Lender has purchased and funded a risk participation in a Swing Line Loan, if the Swing Line Lender receives any payment on account of such Swing Line Loan, the Swing Line Lender will distribute to such Lender its Applicable Percentage of such payment (appropriately adjusted, in the case of interest payments, to reflect the period of time during which such Lender's risk participation was funded) in the same funds as those received by the Swing Line Lender.

(ii) If any payment received by the Swing Line Lender in respect of principal or interest on any Swing Line Loan is required to be returned by the Swing Line Lender under any of the circumstances described in Section 11.05 (including pursuant to any settlement entered into by the Swing Line Lender in its discretion), each Lender shall pay to the Swing Line Lender its Applicable Percentage thereof on demand of the Administrative Agent, plus interest thereon from the date of such demand to the date such amount is returned, at a rate per annum equal to the Federal Funds Rate. The Administrative Agent will make such demand upon the request of the Swing Line Lender. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Interest for Account of Swing Line Lender. The Swing Line Lender shall be responsible for invoicing the Borrower for interest on the Swing Line Loans. Until each Lender funds its risk participation pursuant to this Section 2.04 to pay such Lender's Applicable Percentage of any Swing Line Loan, interest in respect of such Applicable Percentage shall be solely for the account of the

Swing Line Lender.

(f) Payments Directly to Swing Line Lender. The Borrower shall make all payments of principal and interest in respect of the Swing Line Loans directly to the Swing Line Lender.

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2.05 PREPAYMENTS.

(a) The Borrower may, upon notice to the Administrative Agent, at any time or from time to time voluntarily prepay Committed Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Administrative Agent not later than 11:00 a.m. (A) three Business Days prior to any date of prepayment of Eurodollar Rate Loans and (B) on the date of prepayment of Base Rate Committed Loans; and (ii) any prepayment shall be in a principal amount of \$2,000,000 or a whole multiple of \$100,000 in excess thereof or, in each case, if less, the entire principal amount thereof then outstanding. Each such notice shall specify the date and amount of such prepayment and the Type(s) of Committed Loans to be prepaid. The Administrative Agent will promptly notify each Lender of its receipt of each such notice, and of the amount of such Lender's Applicable Percentage of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein. Any prepayment of a Eurodollar Rate Loan shall be accompanied by all accrued interest on the amount prepaid, together with any additional amounts required pursuant to Section 3.05. Each such prepayment shall be applied to the Committed Loans of the Lenders in accordance with their respective Applicable Percentages.

(b) The Borrower may, upon notice to the Swing Line Lender (with a copy to the Administrative Agent), at any time or from time to time, voluntarily prepay Swing Line Loans in whole or in part without premium or penalty; provided that (i) such notice must be received by the Swing Line Lender and the Administrative Agent not later than 1:00 p.m. on the date of the prepayment, and (ii) any such prepayment shall be in a minimum principal amount of \$100,000. Each such notice shall specify the date and amount of such prepayment. If such notice is given by the Borrower, the Borrower shall make such prepayment and the payment amount specified in such notice shall be due and payable on the date specified therein.

(c) If for any reason the Total Outstandings at any time exceed the Aggregate Commitments then in effect, the Borrower shall immediately prepay Loans and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.05(c) unless after the prepayment in full of the Loans the Total Outstandings exceed the Aggregate Commitments then in effect. If for any reason the Outstanding Amount of all Swing Line Loans exceed the Swing Line Sublimit, the Borrower shall immediately prepay the Swing Line Loans in an aggregate amount equal to such excess.

(d) If, subsequent to the Closing Date, the Borrower or any of its Subsidiaries shall receive Net Proceeds from any conveyance, sale, lease, assignment, transfer or other disposition of any of its property, business or assets, such Net Proceeds shall be promptly and ratably applied toward the prepayment of the Loans and permanent reduction of the Commitments in accordance with Section 8.05(k).

2.06 TERMINATION OR REDUCTION OF COMMITMENTS.

The Borrower may, upon notice to the Administrative Agent, terminate the Aggregate Commitments, or from time to time permanently reduce the Aggregate Commitments; provided that (i) any such notice shall be received by the Administrative Agent not later than 11:00 a.m. three Business Days prior to the date of termination or reduction, (ii) any such partial reduction shall be in an aggregate amount of \$5,000,000 or any whole multiple of \$100,000 in excess thereof, (iii) the Borrower shall not terminate or reduce the Aggregate Commitments if, after giving effect thereto and to any concurrent prepayments hereunder, the Total Outstandings would exceed the Aggregate Commitments, and (iv) if,

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after giving effect to any reduction of the Aggregate Commitments, the Swing Line Sublimit exceeds the amount of the Aggregate Commitments, such Sublimit shall be automatically reduced by the amount of such excess. The Administrative Agent will promptly notify the Lenders of any such notice of termination or reduction of the Aggregate Commitments. Any reduction of the Aggregate Commitments shall be applied to the Commitment of each Lender according to its Applicable Percentage. All fees accrued until the effective date of any termination of the Aggregate Commitments shall be paid on the effective date of such termination.

2.07 REPAYMENT OF LOANS.

(a) The Borrower shall repay to the Lenders on the Maturity Date the aggregate principal amount of Committed Loans outstanding on such date.

(b) The Borrower shall repay each Swing Line Loan on the earlier to occur of (i) the date within one Business Day of demand therefor by the Swing Line Lender and (ii) the Maturity Date.

2.08 INTEREST.

(a) Subject to the provisions of subsection (b) below, (i) each

Eurodollar Rate Loan shall bear interest on the outstanding principal amount thereof for each Interest Period at a rate per annum equal to the Eurodollar Rate for such Interest Period plus the Applicable Rate; (ii) each Base Rate Committed Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate; and (iii) each Swing Line Loan shall bear interest on the outstanding principal amount thereof from the applicable borrowing date at a rate per annum equal to the Base Rate plus the Applicable Rate.

(b) (i) If any amount of principal of any Loan is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(ii) If any amount (other than principal of any Loan) payable by the Borrower under any Loan Document is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such amount shall thereafter bear interest at a fluctuating interest rate per annum at all times equal to the Default Rate to the fullest extent permitted by applicable Laws.

(iii) Accrued and unpaid interest on past due amounts (including interest on past due interest) shall be due and payable upon demand.

(c) Interest on each Loan shall be due and payable in arrears on each Interest Payment Date applicable thereto and at such other times as may be specified herein. Interest hereunder shall be due and payable in accordance with the terms hereof before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law.

2.09 FEES.

In addition to certain fees described in subsections (i) and (j) of Section 2.03:

(a) Commitment Fee. The Borrower shall pay to the Administrative Agent for the account of each Lender in accordance with its Applicable Percentage, a commitment fee equal to the Applicable Rate

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times the actual daily amount by which the Aggregate Commitments exceed the sum of (i) the Outstanding Amount of Committed Loans and (ii) the Outstanding Amount of L/C Obligations. The commitment fee shall accrue at all times during the Availability Period, including at any time during which one or more of the conditions in Section 5.02 is not met, and shall be due and payable quarterly in arrears on the last Business Day of each March, June, September and December, commencing with the first such date to occur after the Closing Date, and on the Maturity Date. The commitment fee shall be calculated quarterly in arrears, and if there is any change in the Applicable Rate during any quarter, the actual daily amount shall be computed and multiplied by the Applicable Rate separately for each period during such quarter that such Applicable Rate was in effect.

(b) Other Fees. The Borrower shall pay to BAS and the Administrative Agent for their own respective accounts fees in the amounts and at the times specified in the Fee Letter. Such fees shall be fully earned when paid and shall not be refundable for any reason whatsoever.

2.10 COMPUTATION OF INTEREST AND FEES.

All computations of interest for Base Rate Loans when the Base Rate is determined by Bank of America's "prime rate" shall be made on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed. All other computations of fees and interest shall be made on the basis of a 360-day year and actual days elapsed (which results in more fees or interest, as applicable, being paid than if computed on the basis of a 365-day year). Interest shall accrue on each Loan for the day on which the Loan is made, and shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid, provided that any Loan that is repaid on the same day on which it is made shall, subject to Section 2.12(a), bear interest for one day. Each determination by the Administrative Agent of an interest rate or fee hereunder shall be conclusive and binding for all purposes, absent manifest error.

2.11 EVIDENCE OF DEBT.

(a) The Credit Extensions made by each Lender shall be evidenced by one or more accounts or records maintained by such Lender and by the Administrative Agent in the ordinary course of business. The accounts or records maintained by the Administrative Agent and each Lender shall be conclusive absent manifest error of the amount of the Credit Extensions made by the Lenders to the Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of the Borrower hereunder to pay any amount owing with respect to the Obligations. In the event of any conflict between the accounts and records maintained by any Lender and the accounts and records of the Administrative Agent in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error. Upon the request of any Lender made through the Administrative Agent, the Borrower shall execute and deliver to such Lender (through the Administrative Agent) a Note, which shall evidence such Lender's Loans in addition to such accounts or records. Each such Note shall (i) in the case of Committed Loans, be in the form of Exhibit D (a "Revolving Note") and (ii) in the case of Swing Line Loans, be in the form of Exhibit E (a "Swing Line Note"). Each Lender may attach schedules to its Note and endorse thereon the date, Type (if applicable), amount and maturity of its Loans and payments with respect thereto.

(b) In addition to the accounts and records referred to in subsection (a), each Lender and the Administrative Agent shall maintain in accordance with its usual practice accounts or records evidencing the purchases and sales by such Lender of participations in Letters of Credit and Swing Line Loans. In the event of any conflict between the accounts and records maintained by the Administrative Agent and the accounts and records of any Lender in respect of such matters, the accounts and records of the Administrative Agent shall control in the absence of manifest error.

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2.12 PAYMENTS GENERALLY; ADMINISTRATIVE AGENT'S CLAWBACK.

(a) General. All payments to be made by the Borrower shall be made without deduction for any counterclaim or setoff. Except as otherwise expressly provided herein, all payments by the Borrower hereunder shall be made to the Administrative Agent, for the account of the respective Lenders to which such payment is owed, at the Administrative Agent's Office in Dollars and in immediately available funds not later than 2:00 p.m. on the date specified herein; provided, that with respect to any reimbursement obligations of the Borrower arising from the presentment to the applicable L/C Issuer of a draft under a Letter of Credit denominated in an Alternative Currency, the Borrower may make payment in the applicable Alternative Currency if such payment is received by the applicable L/C Issuer on the date such draft is paid by the applicable L/C Issuer. The Administrative Agent will promptly distribute to each Lender its Applicable Percentage of such payment in like funds as received by wire transfer to such Lender's Lending Office. All payments received by the Administrative Agent after 2:00 p.m. shall be deemed received on the next succeeding Business Day and any applicable interest or fee shall continue to accrue. If any payment to be made by the Borrower shall come due on a day other than a Business Day, payment shall be made on the next following Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be.

(b) (i) Funding by Lenders; Presumption by Administrative Agent. Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Committed Borrowing of Eurodollar Rate Loans (or, in the case of any Committed Borrowing of Base Rate Loans, prior to 12:00 noon on the date of such Committed Borrowing) that such Lender will not make available to the Administrative Agent such Lender's share of such Committed Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with Section 2.02 (or, in the case of a Committed Borrowing of Base Rate Loans, that such Lender has made such share available in accordance with and at the time required by Section 2.02) and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Committed Borrowing available to the Administrative Agent, then the applicable Lender agrees to pay to the Administrative Agent forthwith on demand such corresponding amount in immediately available funds with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation. If such Lender's share of the applicable Committed Borrowing is not made available to the Administrative Agent by such Lender within three Business Days of the date such amount is made available to the Borrower, the Administrative Agent shall also be entitled to recover such amount with interest thereon at the rate per annum applicable to Base Rate Loans hereunder, on demand, from the Borrower. If the Borrower and such Lender shall pay such interest to the Administrative Agent for the same or an overlapping period, the Administrative Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender pays its share of the applicable Committed Borrowing to the Administrative Agent, then the amount so paid shall constitute such Lender's Committed Loan included in such Committed Borrowing. Any payment by the Borrower shall be without prejudice to any claim the Borrower may have against a Lender that shall have failed to make such payment to the Administrative Agent.

(ii) Payments by Borrower; Presumptions by Administrative Agent. Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or any L/C Issuer hereunder that the Borrower will not make such payment, the Administrative Agent may assume

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that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the applicable L/C Issuer, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the applicable L/C Issuer, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or the applicable L/C Issuer, in immediately available funds with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

A notice of the Administrative Agent to any Lender or the Borrower with respect to any amount owing under this subsection (b) shall be

conclusive, absent manifest error.

(c) Failure to Satisfy Conditions Precedent. If any Lender makes available to the Administrative Agent funds for any Loan to be made by such Lender as provided in the foregoing provisions of this Article II, and such funds are not made available to the Borrower by the Administrative Agent because the conditions to the applicable Credit Extension set forth in Article V are not satisfied or waived in accordance with the terms hereof, the Administrative Agent shall promptly return such funds (in like funds as received from such Lender) to such Lender, without interest.

(d) Obligations of Lenders Several. The obligations of the Lenders hereunder to make Committed Loans, to fund participations in Letters of Credit and Swing Line Loans and to make payments pursuant to Section 11.04(c) are several and not joint. The failure of any Lender to make any Committed Loan, to fund any such participation or to make any payment under Section 11.04(c) on any date required hereunder shall not relieve any other Lender of its corresponding obligation to do so on such date, and no Lender shall be responsible for the failure of any other Lender to so make its Committed Loan, to purchase its participation or to make its payment under Section 11.04(c).

(e) Funding Source. Nothing herein shall be deemed to obligate any Lender to obtain the funds for any Loan in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan in any particular place or manner.

2.13 SHARING OF PAYMENTS BY LENDERS.

If any Lender shall, by exercising any right of setoff or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of the Committed Loans made by it, or the participations in L/C Obligations or in Swing Line Loans held by it resulting in such Lender's receiving payment of a proportion of the aggregate amount of such Committed Loans or participations and accrued interest thereon greater than its pro rata share thereof as provided herein, then the Lender receiving such greater proportion shall (a) notify the Administrative Agent of such fact, and (b) purchase (for cash at face value) participations in the Committed Loans and subparticipations in L/C Obligations and Swing Line Loans of the other Lenders, or make such other adjustments as shall be equitable, so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Committed Loans and other amounts owing them, provided that:

(i) if any such participations or subparticipations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations or subparticipations shall be rescinded and the purchase price restored to the extent of such recovery, without interest; and

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(ii) the provisions of this Section shall not be construed to apply to (x) any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or (y) any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Committed Loans or subparticipations in L/C Obligations or Swing Line Loans to any assignee or participant, other than to the Borrower or any Subsidiary thereof (as to which the provisions of this Section shall apply).

Each Loan Party consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against such Loan Party rights of setoff and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Loan Party in the amount of such participation.

ARTICLE III TAXES, YIELD PROTECTION AND ILLEGALITY

3.01 TAXES.

(a) Payments Free of Taxes. Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without reduction or withholding for any Indemnified Taxes or Other Taxes, provided that if the Borrower shall be required by applicable law to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 3.01) the Administrative Agent, Lender or an L/C Issuer, as the case may be, receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall timely pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and each L/C Issuer, within 10 days after demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 3.01) paid by the Administrative Agent, such Lender or such L/C Issuer, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with

respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender or an L/C Issuer (with a copy to the Administrative Agent), or by the Administrative Agent on its own behalf or on behalf of a Lender or an L/C Issuer, shall be conclusive absent manifest error.

(d) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

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(e) Status of Lenders. Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which the Borrower is resident for tax purposes, or any treaty to which such jurisdiction is a party, with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any Lender, the Administrative Agent or any L/C Issuer, if requested by the Borrower or the Administrative Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by the Borrower or the Administrative Agent as will enable the Borrower or the Administrative Agent to determine whether or not such Lender, the Administrative Agent or such L/C Issuer is subject to backup withholding or information reporting requirements. Each Lender, the Administrative Agent or any L/C Issuer shall promptly notify the Borrower at any time it determines that it is no longer in a position to provide any previously delivered certificate or form.

Without limiting the generality of the foregoing, in the event that the Borrower is resident for tax purposes in the United States, any Foreign Lender shall deliver to the Borrower and the Administrative Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Administrative Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(i) properly completed and duly executed copies of Internal Revenue Service Form W-8BEN (or any subsequent versions thereof or successors thereto) claiming eligibility for benefits of an income tax treaty to which the United States is a party,

(ii) properly completed and duly executed copies of Internal Revenue Service Form W-8ECI (or any subsequent versions thereof or successors thereto) claiming an exemption for effectively connected income,

(iii) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Code, (x) a certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Code and (y) duly completed copies of Internal Revenue Service Form W-8BEN (or any subsequent versions thereof or successors thereto), or

(iv) any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in United States Federal withholding tax properly completed and duly executed together with such supplementary documentation as may be prescribed by applicable law to permit the Borrower to determine the withholding or deduction required to be made.

(f) Treatment of Certain Refunds. If the Administrative Agent, any Lender or any L/C Issuer determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 3.01, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 3.01 with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent, such Lender or such L/C Issuer, as the case may be, and without interest (other than any interest paid by the relevant Governmental

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Authority with respect to such refund), provided that the Borrower, upon the request of the Administrative Agent, such Lender or such L/C Issuer, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent, such Lender or such L/C Issuer in the event the Administrative Agent, such Lender or such L/C Issuer is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Administrative Agent, any Lender or such L/C Issuer to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

3.02 ILLEGALITY.

If any Lender determines that as a result of any Change in Law it becomes unlawful, or any Governmental Authority asserts that it is unlawful, for any Lender or its applicable Lending Office to make, maintain or fund Eurodollar Rate Loans, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Administrative Agent, any obligation of such Lender to make or continue Eurodollar Rate Loans or to convert Base Rate Committed Loans to Eurodollar Rate Loans shall be suspended until such Lender notifies the Administrative Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Administrative Agent), convert all Eurodollar Rate Loans of such Lender to Base Rate Loans, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Loans to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Loans. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

3.03 INABILITY TO DETERMINE RATES.

If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Loan or a conversion to or continuation thereof that (a) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan or (b) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Loan does not adequately and fairly reflect the cost to such Lenders of funding such Loan, the Administrative Agent will promptly so notify the Borrower and each Lender. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Loans shall be suspended until the Administrative Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, conversion to or continuation of Eurodollar Rate Loans or, failing that, will be deemed to have converted such request into a request for a Committed Borrowing of Base Rate Loans in the amount specified therein.

3.04 INCREASED COSTS; RESERVES ON EURODOLLAR RATE LOANS.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 3.04(e)) or any L/C Issuer;

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(ii) subject any Lender or any L/C Issuer to any tax of any kind whatsoever with respect to this Agreement, any Letter of Credit, any participation in a Letter of Credit or any Eurodollar Rate Loan made by it, or change the basis of taxation of payments to such Lender or any L/C Issuer in respect thereof (except for Indemnified Taxes or Other Taxes covered by Section 3.01 and the imposition of, or any change in the rate of, any Excluded Tax payable by such Lender or such L/C Issuer); or

(iii) impose on any Lender or any L/C Issuer or any other condition, cost or expense affecting this Agreement or Eurodollar Rate Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender, by an amount which such Lender deems to be material in its sole discretion, of making or maintaining any Eurodollar Rate Loan (or of maintaining its obligation to make any such Loan), or to increase the cost to such Lender or such L/C Issuer of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or such L/C Issuer hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or such L/C Issuer, the Borrower will pay to such Lender or such L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or such L/C Issuer, as the case may be, for such additional costs incurred or reduction suffered. If any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify the Borrower, through the Administrative Agent, of the event by reason of which it has become so entitled. If the Borrower so notifies the Administrative Agent within five Business Days after any Lender notifies the Borrower of any increased cost pursuant to the foregoing provisions of this Section, the Borrower may convert all Eurodollar Rate Loans of such Lender then outstanding into Base Rate Loans in accordance with the terms hereof.

(b) Capital Requirements. If any Lender or any L/C Issuer determines that any Change in Law affecting such Lender or such L/C Issuer or any Lending Office of such Lender or such Lender's or such L/C Issuer's holding company, if any, regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or such L/C Issuer's capital or on the capital of such Lender's or such L/C Issuer's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Loans made by, or participations in Letters of Credit or Loans held by, such Lender, or the Letters of Credit issued by such L/C Issuer, to a level below that which such Lender or such L/C Issuer or such Lender's or such L/C Issuer's holding company could have achieved but for such Change in Law (taking into consideration such

Lender's or such L/C Issuer's policies and the policies of such Lender's or such L/C Issuer's holding company with respect to capital adequacy), by an amount deemed by such Lender to be material in its sole discretion, then from time to time the Borrower will pay to such Lender or such L/C Issuer, as the case may be, such additional amount or amounts as will compensate such Lender or such L/C Issuer or such Lender's or such L/C Issuer's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or an L/C Issuer setting forth the amount or amounts necessary to compensate such Lender or such L/C Issuer or its holding company, as the case may be, as specified in subsection (a) or (b) of this Section, showing the calculation thereof, in reasonable detail, and delivered to the Borrower shall be conclusive absent manifest error. The Borrower shall pay such Lender or such L/C Issuer, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or any L/C Issuer to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of

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such Lender's or such L/C Issuer's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or an L/C Issuer pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than 120 days prior to the date that such Lender or such L/C Issuer, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such L/C Issuer's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 120-day period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Loans. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Loan equal to the actual costs of such reserves allocated to such Loan by such Lender (as determined by such Lender in good faith, which determination shall be conclusive), which shall be due and payable on each date on which interest is payable on such Loan, provided the Borrower shall have received at least ten (10) days' prior notice (with a copy to the Administrative Agent) of such additional interest from such Lender. If a Lender fails to give notice ten (10) days prior to the relevant Interest Payment Date, such additional interest shall be due and payable ten (10) days from receipt of such notice.

3.05 COMPENSATION FOR LOSSES.

Upon demand of any Lender (with a copy to the Administrative Agent) from time to time, the Borrower shall promptly compensate such Lender for and hold such Lender harmless from any loss, cost or expense incurred by it as a result of:

(a) any continuation, conversion, payment or prepayment of any Eurodollar Loan on a day other than the last day of the Interest Period for such Loan (whether voluntary, mandatory, automatic, by reason of acceleration, or otherwise);

(b) any failure by the Borrower (for a reason other than the failure of such Lender to make a Loan) to prepay, borrow, continue or convert any Eurodollar Loan on the date or in the amount notified by the Borrower; or

(c) any assignment of a Eurodollar Rate Loan on a day other than the last day of the Interest Period therefor as a result of a request by the Borrower pursuant to Section 11.13;

including any loss or expense (but excluding loss of margin) arising from the liquidation or reemployment of funds obtained by it to maintain such Loan or from fees payable to terminate the deposits from which such funds were obtained. Such indemnification under this Section 3.05 may include an amount equal to the excess, if any, of (i) the amount of interest which would have accrued on the amount so prepaid, or not so borrowed, converted or continued, for the period from the date of such prepayment or of such failure to borrow, convert or continue to the last day of such Interest Period (or, in the case of a failure to borrow, convert or continue, the Interest Period that would have commenced on the date of such failure) in each case at the applicable rate of interest for such Loans provided for herein (but excluding loss of margin) over (ii) the amount of interest (as reasonably determined by such Lender) which would have accrued to such Lender on such amount by placing such amount on deposit for a comparable period with leading banks in the interbank eurodollar market. Each Lender claiming any payment pursuant to this Section 3.05 shall do so by giving notice thereof to the Borrower and the Administrative Agent (showing calculation of the amount claimed in reasonable detail) within 60 Business Days after a failure to

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borrow, convert or continue Eurodollar Rate Loans, or to prepay, after notice or after a prepayment of Eurodollar Rate Loans on a day which is not the last day of an Interest Period therefor.

3.06 MITIGATION OBLIGATIONS; REPLACEMENT OF LENDERS.

(a) Designation of a Different Lending Office. If any Lender requests compensation under Section 3.04, or the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or if any Lender gives a notice pursuant to Section 3.02, then such Lender shall use reasonable efforts to designate a different Lending Office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, in the reasonable judgment of such Lender, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 3.01 or 3.04, as the case may be, in the future, or eliminate the need for the notice pursuant to Section 3.02, as applicable, and (ii) in each case, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) Replacement of Lenders. If any Lender requests compensation under Section 3.04, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Sections 3.01, 3.02 or 3.04, the Borrower may replace such Lender in accordance with Section 11.13.

3.07 SURVIVAL.

All of the Borrower's obligations under this Section 3.01, 3.02 and 3.05 shall survive termination of the Aggregate Commitments and repayment of all other Obligations hereunder.

ARTICLE IV GUARANTY

4.01 THE GUARANTY.

Each of the Guarantors hereby jointly and severally guarantees to each Lender, each Affiliate of a Lender that enters into a Swap Contract or a Treasury Management Agreement, and the Administrative Agent as hereinafter provided, as primary obligor and not as surety, the prompt payment of the Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise) strictly in accordance with the terms thereof. The Guarantors hereby further agree that if any of the Obligations are not paid in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise), the Guarantors will, jointly and severally, promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Obligations, the same will be promptly paid in full when due (whether at extended maturity, as a mandatory prepayment, by acceleration, as a mandatory cash collateralization or otherwise) in accordance with the terms of such extension or renewal.

Notwithstanding any provision to the contrary contained herein or in any other of the Loan Documents or Swap Contracts or Treasury Management Agreements, the obligations of each Guarantor under this Agreement and the other Loan Documents shall be limited to an aggregate amount equal to the

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largest amount that would not render such obligations subject to avoidance under the Debtor Relief Laws or any comparable provisions of any applicable state law.

4.02 OBLIGATIONS UNCONDITIONAL.

The obligations of the Guarantors under Section 4.01 are joint and several, absolute and unconditional, irrespective of the value, genuineness, validity, regularity or enforceability of any of the Loan Documents, Swap Contracts or Treasury Management Agreements, or any other agreement or instrument referred to therein, or any substitution, release, impairment or exchange of any other guarantee of or security for any of the Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever which might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 4.02 that the obligations of the Guarantors hereunder shall be absolute and unconditional under any and all circumstances. Each Guarantor agrees that such Guarantor shall have no right of subrogation, indemnity, reimbursement or contribution against the Borrower or any other Guarantor for amounts paid under this Article IV until such time as the Obligations have been Fully Satisfied. Without limiting the generality of the foregoing, it is agreed that, to the fullest extent permitted by law, the occurrence of any one or more of the following shall not alter or impair the liability of any Guarantor hereunder which shall remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to any Guarantor, the time for any performance of or compliance with any of the Obligations shall be extended, or such performance or compliance shall be waived;

(b) any of the acts mentioned in any of the provisions of any of the Loan Documents, any Swap Contract or any Treasury Management Agreement between any Consolidated Party and any Lender, or any Affiliate of a Lender, or any other agreement or instrument referred to in the Loan Documents or such Swap Contracts shall be done or omitted;

(c) the maturity of any of the Obligations shall be accelerated, or any of the Obligations shall be modified, supplemented or amended in any respect, or any right under any of the Loan Documents, any Swap

Contract or any Treasury Management Agreement between any Consolidated Party and any Lender, or any Affiliate of a Lender, or any other agreement or instrument referred to in the Loan Documents or such Swap Contracts or such Treasury Management Agreements shall be waived or any other guarantee of any of the Obligations or any security therefor shall be released, impaired or exchanged in whole or in part or otherwise dealt with;

(d) any Lien granted to, or in favor of, the Administrative Agent or any Lender or Lenders as security for any of the Obligations shall fail to attach or be perfected; or

(e) any of the Obligations shall be determined to be void or voidable (including, without limitation, for the benefit of any creditor of any Guarantor) or shall be subordinated to the claims of any Person (including, without limitation, any creditor of any Guarantor).

With respect to its obligations hereunder, each Guarantor hereby expressly waives diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that the Administrative Agent or any Lender exhaust any right, power or remedy or proceed against any Person under any of the Loan Documents, any Swap Contract or any Treasury Management Agreement between any Consolidated Party and any Lender, or any Affiliate of a Lender, or any other agreement or instrument referred to in the Loan Documents or such Swap Contracts or such Treasury Management Agreements, or against any other Person under any other guarantee of, or security for, any of the Obligations.

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4.03 REINSTATEMENT.

The obligations of the Guarantors under this Article IV shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of any Person in respect of the Obligations is rescinded or must be otherwise restored by any holder of any of the Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise, and each Guarantor agrees that it will indemnify the Administrative Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees and expenses of counsel) incurred by the Administrative Agent or such Lender in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

4.04 CERTAIN ADDITIONAL WAIVERS.

Each Guarantor agrees that such Guarantor shall have no right of recourse to security for the Obligations, except through the exercise of rights of subrogation pursuant to Section 4.02 and through the exercise of rights of contribution pursuant to Section 4.06.

4.05 REMEDIES.

The Guarantors agree that, to the fullest extent permitted by law, as between the Guarantors, on the one hand, and the Administrative Agent and the Lenders, on the other hand, the Obligations may be declared to be forthwith due and payable as provided in Section 9.02 (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 9.02) for purposes of Section 4.01 notwithstanding any stay, injunction or other prohibition preventing such declaration (or preventing the Obligations from becoming automatically due and payable) as against any other Person and that, in the event of such declaration (or the Obligations being deemed to have become automatically due and payable), the Obligations (whether or not due and payable by any other Person) shall forthwith become due and payable by the Guarantors for purposes of Section 4.01. The Guarantors acknowledge and agree that their obligations hereunder may be secured in accordance with the terms of the Collateral Documents and that the Lenders may exercise their remedies thereunder in accordance with the terms thereof.

4.06 RIGHTS OF CONTRIBUTION.

The Guarantors hereby agree as among themselves that, in connection with payments made hereunder, each Guarantor shall have a right of contribution from each other Guarantor in accordance with applicable Law. Such contribution rights shall be subordinate and subject in right of payment to the Obligations until such time as the Obligations have been Fully Satisfied, and none of the Guarantors shall exercise any such contribution rights until the Obligations have been Fully Satisfied.

4.07 GUARANTEE OF PAYMENT; CONTINUING GUARANTEE.

The guarantee in this Article IV is a guaranty of payment and not of collection, is a continuing guarantee, and shall apply to all Obligations whenever arising.

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ARTICLE V CONDITIONS PRECEDENT TO CREDIT EXTENSIONS

5.01 CONDITIONS OF INITIAL CREDIT EXTENSION.

The obligation of any L/C Issuer and each Lender to make its initial

Credit Extension hereunder is subject to satisfaction of the following conditions precedent:

(a) Receipt by the Administrative Agent of the following:

(i) executed counterparts of this Agreement and the other Loan Documents, each properly executed by a Responsible Officer of the signing Loan Party and, in the case of this Agreement, by each Lender;

(ii) copies of the Organization Documents of each Loan Party certified to be true and complete as of a recent date by the appropriate Governmental Authority of the state or other jurisdiction of its incorporation or organization, where applicable, and certified by a secretary or assistant secretary of such Loan Party to be true and correct as of the Closing Date;

(iii) such certificates of resolutions or other action, incumbency certificates and/or other certificates of Responsible Officers of each Loan Party as the Administrative Agent may require evidencing the identity, authority and capacity of each Responsible Officer thereof authorized to act as a Responsible Officer in connection with this Agreement and the other Loan Documents to which such Loan Party is a party;

(iv) such documents and certifications as the Administrative Agent may reasonably require to evidence that each Loan Party is duly organized or formed, and that the Borrower and each Loan Party is validly existing, in good standing and qualified to engage in business in its jurisdiction;

(v) favorable opinions of Simpson Thacher and Bartlett LLP, special counsel to the Loan Parties and Christopher C. Cambria, Senior Vice President, General Counsel and Secretary of the Borrower and Holdings, each addressed to the Administrative Agent and each Lender;

(vi) a certificate signed by a Responsible Officer of the Borrower certifying (A) that there has been no event or circumstance since the date of the Audited Financial Statements that has had or could be reasonably expected to have, either individually or in the aggregate, a Material Adverse Effect and (B) the current Debt Ratings; and

(vii) a certificate signed by a Responsible Officer of the Borrower certifying that the conditions specified in Sections 5.02(a) and (b) have been satisfied.

(b) Any fees required to be paid on or before the Closing Date shall have been paid.

(c) Unless waived by the Administrative Agent, the Borrower shall have paid all fees, charges and disbursements of counsel to the Administrative Agent to the extent invoiced prior to the Closing Date.

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5.02 CONDITIONS TO ALL CREDIT EXTENSIONS.

The obligation of each Lender and each L/C Issuer to honor any Request for Credit Extension (other than a Committed Loan Notice requesting only a conversion of Committed Loans to the other Type, or a continuation of Eurodollar Rate Loans) is subject to the following conditions precedent:

(a) The representations and warranties of the Borrower and each other Loan Party contained in Article VI or any other Loan Document, or which are contained in any document furnished at any time under or in connection herewith or therewith, shall be true and correct in all material respects on and as of the date of such Credit Extension, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct as of such earlier date.

(b) No Default or Event of Default shall exist, or would result from such proposed Credit Extension or from the application of the proceeds thereof.

(c) The Administrative Agent and, if applicable, the applicable L/C Issuer or the Swing Line Lender shall have received a Request for Credit Extension in accordance with the requirements hereof.

Each Request for Credit Extension (other than a Committed Loan Notice requesting only a conversion of Committed Loans to the other Type or a continuation of Eurodollar Rate Loans) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 5.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

ARTICLE VI REPRESENTATIONS AND WARRANTIES

The Borrower represents and warrants to the Administrative Agent and the Lenders (with respect to Holdings, only until such time as Holdings is merged with and into the Borrower) that:

6.01 CORPORATE EXISTENCE; COMPLIANCE WITH LAW.

(a) Each of Holdings and the Borrower is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization and (b) each other Loan Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, except to the extent that the failure to comply with this Section 6.01(b) would not cause the Borrower and its Subsidiaries to be in violation of Section 7.09(d). Each of Holdings, the Borrower and the other Loan Parties (i) has the corporate power and authority, and the legal right, to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (ii) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification and (iii) is in compliance with all Laws except in each case referred to in clause (i), (ii) or (iii), to the extent that the failure to do so could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.02 CORPORATE POWER; AUTHORIZATION; ENFORCEABLE OBLIGATIONS.

Each of Holdings, the Borrower and its Subsidiaries has the corporate power and authority, and the legal right, to make, deliver and perform the Loan Documents to which it is a party and, in the case of

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the Borrower, to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and to authorize the execution, delivery and performance of such Loan Documents. No consent or authorization of, filing with, notice to or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of the Loan Documents to which the Borrower and each other Loan Party is a party, except in each case for those consents or authorizations which have been obtained on or prior to the Closing Date and filings and other actions necessary to perfect the security interest in the Collateral after the Collateral Effective Date, as required by Section 7.08 and 7.09. This Agreement has been, and each other Loan Document will be, duly executed and delivered on behalf of the Borrower and each other Loan Party. This Agreement constitutes, and each other Loan Document to which it is a party when executed and delivered will constitute, a legal, valid and binding obligation of each Loan Party thereto enforceable against each such Loan Party, as the case may be, in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law) and an implied covenant of good faith and fair dealing.

6.03 NO LEGAL BAR.

Except as could not reasonably be expected to, individually or in the aggregate, have a Material Adverse Effect, the execution, delivery and performance of each Loan Document, the borrowing and use of the proceeds of the Loans and the consummation of the transactions contemplated by the Loan Documents: (a) will not violate any Law or any Contractual Obligation applicable to or binding upon Holdings, the Borrower or any Subsidiary of the Borrower or any of their respective properties or assets and (b) will not result in the creation or imposition of any Lien on any of its properties or assets pursuant to any Law applicable to it or any of its Contractual Obligations, except for the Liens arising under the Pledge Agreement. Each Credit Extension hereunder constitutes "Senior Debt" under and, as defined in, the 2004 Indenture.

6.04 PURPOSE OF LOANS.

The proceeds of the Loans shall be used by the Borrower (i) to pay fees and expenses related to the preparation and negotiation of this Agreement and the other Loan Documents, (ii) to refinance the Existing Credit Agreement, (iii) for working capital, capital expenditures and other lawful corporate purposes, including, without limitation, the making of Investments permitted under Section 8.02 and (iv) to support the issuance of letters of credit for lawful corporate purposes.

6.05 FINANCIAL CONDITION; NO CHANGE.

(a) The audited consolidated balance sheets at December 31, 2003 and the related statements of income and cash flows of Holdings and its Subsidiaries for the fiscal year then ended, certified by PricewaterhouseCoopers L.L.P. have been delivered to the Administrative Agent and the Lenders and have been prepared in accordance with GAAP consistently applied throughout the periods covered (except as disclosed therein and except, with respect to unaudited financial statements, for the absence of footnotes and normal year-end audit adjustments) and present fairly in all material respects the financial position of the Persons covered thereby as at the dates thereof and the results of their operations and cash flows for the periods then ended.

(b) Since December 31, 2003, there has been no development, event or circumstance which has had or could reasonably be expected to have a Material Adverse Effect.

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6.06 NO MATERIAL LITIGATION.

Except as set forth on Schedule 6.06, no litigation by, investigation by, or proceeding of or before any arbitrator or any Governmental Authority is pending or, to the knowledge of the Borrower, overtly threatened by or against Holdings, the Borrower or any of its Subsidiaries or against any of its or their

respective properties or revenues with respect to any Loan Document or any of the transactions contemplated hereby or thereby or which could reasonably be expected to have a Material Adverse Effect. For the avoidance of doubt, if any litigation, investigation or proceeding identified on Schedule 6.06 shall result in a Material Adverse Effect, the Loan Parties hereby agree that the Lenders shall be under no obligation to make any Loan and the L/C Issuers shall be under no obligation to issue or extend any Letter of Credit hereunder.

6.07 NO DEFAULT.

Neither Holdings, the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

6.08 OWNERSHIP OF PROPERTY; LIENS.

Each of Holdings, the Borrower and its Subsidiaries (a) has good record and insurable title in fee simple to, or a valid leasehold interest in, all its real property and (b) has good title to, or a valid leasehold interest in, all its other property, except for such defects in title or interest as could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.09 INTELLECTUAL PROPERTY.

Each of Holdings, the Borrower and each of its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, technology, know-how and processes necessary for the conduct of its business as currently conducted except for those the failure to own or license which could not reasonably be expected to have a Material Adverse Effect (the "Intellectual Property"). To the best of the Borrower's knowledge, no claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, nor does the Borrower know of any valid basis for any such claim which in either case could reasonably be expected to have a Material Adverse Effect. The use of such Intellectual Property by Holdings, the Borrower and its Subsidiaries does not infringe on the rights of any Person, except for such claims and infringements that, in the aggregate, could not reasonably be expected to have a Material Adverse Effect.

6.10 ENVIRONMENTAL MATTERS.

Except insofar as any exception to any of the following, or any aggregation of such exceptions, is not reasonably likely to result in a Material Adverse Effect:

(a) The facilities and properties owned, leased or operated by Holdings, the Borrower or any of its Subsidiaries (the "Properties") do not contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations which (i) constitute or constituted a violation of, or (ii) could reasonably be expected to give rise to liability under, any applicable Environmental Law.

(b) None of Holdings, the Borrower nor any of its Subsidiaries has received any written notice of violation, alleged violation, non-compliance, liability or potential liability regarding

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environmental matters or compliance with Environmental Laws with regard to any of the Properties or the Business, nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened.

(c) Materials of Environmental Concern have not been transported or disposed of from the Properties in violation of, or in a manner or to a location which could reasonably be expected to give rise to liability under, any applicable Environmental Law, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of the Properties in violation of, or in a manner that could reasonably be expected to give rise to liability under, any applicable Environmental Law.

(d) No judicial proceeding or governmental or administrative action is pending or, to the knowledge of the Borrower, threatened, under any Environmental Law to which Holdings, the Borrower or any Subsidiary is or, to the knowledge of the Borrower, will be named as a party or with respect to the Properties or the Business, nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to the Properties or the Business.

(e) There has been no release or threat of release of Materials of Environmental Concern at or from the Properties, or arising from or related to the operations of Holdings, the Borrower or any Subsidiary in connection with the Properties or otherwise in connection with the Business, in violation of or in amounts or in a manner that could reasonably give rise to liability under any applicable Environmental Laws.

(f) The Properties and all operations at the Properties are in compliance, and have in the last 3 years been in compliance, in all material respects with all applicable Environmental Laws, and there is no contamination at, under or about the Properties or violation of any applicable Environmental Law with respect to the Properties or the business operated by Holdings, the Borrower or any of its Subsidiaries (the "Business") which could materially interfere with the continued operation of the Properties or materially impair the fair saleable value thereof.

(g) Holdings, the Borrower and its Subsidiaries hold and are in compliance with all Environmental Permits necessary for their operations.

6.11 TAXES.

Each of Holdings, the Borrower and its Subsidiaries has filed or caused to be filed all material tax returns which, to the knowledge of the Borrower, are required to be filed and has paid all taxes shown to be due and payable on said returns or on any material assessments made against it or any of its property (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of Holdings, the Borrower or its Subsidiaries, as the case may be); no material tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any material tax, fee or other charge.

6.12 ERISA.

(a) Except as could not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect, (i) no Reportable Event has occurred with respect to any Single Employer Plan; (ii) all contributions required to be made with respect to a Plan have been timely made; (iii) none of Holdings, the Borrower nor any ERISA Affiliate has incurred any material liability to or on account of a

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Plan that remains unsatisfied pursuant to Section 409, 502(i), 502(1), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 401(a)(29), 4971, 4975 or 4980 of the Code or reasonably expects to incur any liability (including any indirect, contingent or secondary liability) under any of the foregoing Sections with respect to any Plan; (iv) no termination of, or institution of proceedings to terminate or appoint a trustee to administer, a Single Employer Plan has occurred; (v) each Plan has complied with the applicable provisions of ERISA and the Code (except that with respect to any Multiemployer Plan, such representation is deemed made only to the knowledge of the Borrower) and (vi) no "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA), extension of any amortization period (within the meaning of Section 412 of the Code) or Lien in favor of the PBGC or a Single Employer Plan has arisen or has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Single Employer Plan.

(b) Neither Holdings, the Borrower nor any ERISA Affiliate has had a complete or partial withdrawal from any Multiemployer Plan for which there is any outstanding material liability, and neither Holdings, the Borrower nor any ERISA Affiliate would become subject to any liability under ERISA if Holdings, the Borrower or any such ERISA Affiliate were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made in an amount which would be reasonably likely to have a Material Adverse Effect. To the knowledge of the Borrower, no Multiemployer Plan is in Reorganization or Insolvent except to the extent that any such event could not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect.

6.13 SUBSIDIARIES.

The Domestic Subsidiaries of the Borrower and their respective jurisdictions of incorporation on the Closing Date shall be as set forth on Schedule 6.13. The exact legal name of each Loan Party is as set forth on the signature pages hereto.

6.14 FEDERAL REGULATIONS; INVESTMENT COMPANY ACT; OTHER REGULATIONS.

(a) No part of the proceeds of any Loans will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect.

(b) None of Holdings, the Borrower or any of its Subsidiaries is an "investment company," or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended. None of Holdings, the Borrower or any of its Subsidiaries is subject to regulation under any Federal or State statute or regulation (other than Regulation X of the Board of Governors of the Federal Reserve System) which limits its ability to incur the types of Indebtedness comprising the Obligations.

6.15 COLLATERAL DOCUMENTS.

Upon the execution and delivery thereof by the parties thereto, the Pledge Agreement will be effective to create in favor of the Administrative Agent, for the ratable benefit of the Lenders, a legal, valid and enforceable security interest in the pledged stock described therein and, when stock certificates representing or constituting the pledged stock described therein are delivered to the Administrative Agent, together with undated stock powers executed in blank therefor, such security interest shall, subject to the existence of Permitted Liens, constitute a perfected first lien on, and security interest in, all right, title and interest of the pledgor party thereto in the pledged stock described therein.

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6.16 ACCURACY AND COMPLETENESS OF INFORMATION.

Neither (a) the Confidential Information Memorandum nor (b) any other

information, report, financial statement, exhibit or schedule furnished in writing by or on behalf of the Borrower to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or included herein or delivered pursuant hereto contained, contains or will contain any material misstatement of fact or omitted, omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were, are or will be made, not materially misleading; provided that to the extent any such information, report, financial statement, exhibit or schedule was based upon or constitutes a forecast or projection, the Borrower represents only that it acted in good faith and utilized reasonable assumptions and due care in the preparation of such information, report, financial statement, exhibit or schedule.

6.17 LABOR MATTERS.

There are no strikes pending or, to the Borrower's knowledge, overtly threatened against Holdings, the Borrower or any of its Subsidiaries which, individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect. The hours worked and payments made to employees of Holdings, the Borrower and each of its Subsidiaries (and their predecessors) have not been in violation of the Fair Labor Standards Act or any other applicable Law, except to the extent such violations could not, or in the aggregate, be reasonably expected to have a Material Adverse Effect.

ARTICLE VII AFFIRMATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall, and shall (except in the case of the covenants set forth in Sections 7.01, 7.02, and 7.03) cause each Subsidiary to:

7.01 FINANCIAL STATEMENTS.

The Borrower will deliver to the Administrative Agent, whether or not the Borrower has a class of securities registered under the Exchange Act, (i) within 90 days after the end of each fiscal year of the Borrower, the annual reports and (ii) within 45 days after the end of each fiscal quarter of the Borrower, quarterly reports (including with respect to the fourth quarter of each fiscal year) that the Borrower would be required to file if the Borrower were subject to section 13(a) or 15(d) of the Exchange Act; provided, that any reports required to be delivered pursuant to this Section 7.01 which are made available on EDGAR or any successor system of the SEC shall be deemed delivered when so made available.

All such financial reports shall be complete and correct in all material respects and shall be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by the accountants or officer auditing or preparing such financial reports, as the case may be, and disclosed therein) and, in the case of quarterly reports, subject to year-end audit adjustments and footnote disclosures.

7.02 CERTIFICATES; OTHER INFORMATION.

Deliver to the Administrative Agent (who will make available to the Lenders), in form and detail satisfactory to the Administrative Agent and the Required Lenders:

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(a) within five days after the date on which Borrower delivers the annual financial statements required by Section 7.01, a certificate of its independent certified public accountants certifying such financial statements without material qualification;

(b) within five days after the delivery of the financial statements required by Section 7.01, a certificate signed by a Responsible Officer of the Borrower (i) stating that, to the best of such Responsible Officer's knowledge, during such period (A) no Subsidiary has been formed or acquired (or, if any such Subsidiary has been formed or acquired, the Borrower has complied with the requirements of Section 7.09 with respect thereto) and (B) such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate, (ii) setting forth, in the form of the Compliance Certificate, the computation of the financial covenants in Section 8.08 as of the last day of the fiscal quarter most recently ended and (iii) setting forth the amount of Restricted Payments which the Borrower or any Subsidiary would be permitted to make pursuant to Section 8.06(f) as of the end of the fiscal quarter covered by such financial statements;

(c) promptly, after their becoming available, copies of all proxy statements and all registration statements filed by the Borrower or Holdings under the Securities Act of 1933, as amended (other than registration statements on Form S-8 or any registration statement filed in connection with a dividend reinvestment plan), and regular and periodic reports, if any, which the Borrower or Holdings shall have filed with the SEC (or any governmental agency or agencies substituted therefore) under Section 13 or Section 15(d) of the Securities and Exchange Act of 1934, as amended, or with any national securities exchange (other than those which have already been delivered pursuant to Section 7.01 or on Form 11-K or any successor form); provided, that documents required to be delivered under this clause (c) which are made available on the internet via the EDGAR, or any successor, system of the SEC shall be deemed delivered when made so available; and

(d) promptly, such additional information regarding the business, financial or corporate affairs of the Borrower or any Subsidiary, or compliance with the terms of the Loan Documents, as the Administrative Agent or any Lender may from time to time reasonably request.

The Lenders agree that the documents required to be delivered by the Borrower to the Administrative Agent pursuant to Section 7.01 may be delivered by the Administrative Agent to the Lenders electronically and shall be deemed to have been delivered by the Administrative Agent to the Lenders on the date on which such documents are posted by the Administrative Agent on an Internet or intranet website, if any, to which each Lender and the Administrative Agent have access (whether a commercial, third party website or whether sponsored by the Administrative Agent).

7.03 NOTICES.

(a) Promptly upon any Responsible Officer of the Borrower obtaining knowledge of any of the following, furnish to the Administrative Agent written notice of the following:

(i) any Event of Default or Default, specifying the nature and extent thereof and the corrective action (if any) taken or proposed to be taken with respect thereto;

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(ii) the filing or commencement of any action, suit or proceeding, whether at law or in equity or by or before any Governmental Authority, against Holdings or any of its Subsidiaries that could reasonably be expected to result in a Material Adverse Effect; and

(iii) any development that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect.

(b) Notify the Administrative Agent of any material change in accounting policies or financial reporting practices by Holdings, the Borrower or any Subsidiary concurrently with the delivery of the financial statements required hereunder first affected by such change.

The Administrative Agent agrees that it will promptly send to the Lenders any written notice received by the Administrative Agent pursuant to Section 7.03(a) or (b).

7.04 PAYMENT OF TAXES AND MATERIAL OBLIGATIONS.

Pay, discharge or otherwise satisfy at or before maturity or before they become delinquent, as the case may be, all its (a) material taxes, fees, assessments, and other governmental charges and (b) other obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith by appropriate proceedings and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or its Subsidiaries, as the case may be, except in the case of clause (b), to the extent any failure to pay, discharge or otherwise satisfy could not reasonably be expected to have a Material Adverse Effect.

7.05 CONDUCT OF BUSINESS; MAINTENANCE OF EXISTENCE AND PROPERTY; COMPLIANCE WITH LAW.

Except as not prohibited by Sections 8.04 and 8.05, (a) continue to engage in business of the same general type as now conducted by it and/or any Similar Business; (b) with respect to Holdings and the Borrower (and with respect to the other Loan Parties, to the extent necessary to stay in compliance with Section 7.09(d)), preserve, renew and keep in full force and effect its corporate existence; (c) take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business except if (i) in the reasonable business judgment of the Borrower or such Subsidiary, as the case may be, it is in its best economic interest not to preserve and maintain such rights, privileges or franchises, and (ii) such failure to preserve and maintain such privileges, rights or franchises could not reasonably be expected to have a Material Adverse Effect; (d) keep all property useful and necessary in its business in good working order and condition (ordinary wear and tear and damage by fire and/or other casualty or taking by condemnation excepted) except to the extent that the failure to do so could not, in the aggregate, be reasonably expected to have a Material Adverse Effect; and (e) comply with all Contractual Obligations and applicable Laws except to the extent that the failure to comply therewith could not, in the aggregate, be reasonably expected to have a Material Adverse Effect.

7.06 MAINTENANCE OF INSURANCE.

The Borrower will maintain for itself and its Subsidiaries, with financially sound and reputable insurance companies, insurance in such amounts and against such risks as are customarily maintained by companies of similar stature engaged in the same or similar businesses operating in the same or similar locations.

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7.07 INSPECTION OF PROPERTY; BOOKS AND RECORDS.

Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and with all applicable Law in all material respects shall be made of all dealings and transactions in relation to its business and activities; and permit representatives of any Lender to visit and

inspect any of its properties and examine and make abstracts from any of its books and records (except to the extent any such access is restricted by a Law) (and shall cause Holdings to permit representatives of any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records (except to the extent any such access is restricted by a Law)) at any reasonable time on a Business Day and as often as may reasonably be desired and to discuss the business, operations, properties and financial and other condition of Holdings, the Borrower and its Subsidiaries with officers and employees of Holdings, the Borrower and its Subsidiaries and with its independent certified public accountants; provided that the Administrative Agent or such Lender shall notify the Borrower prior to any contact with such accountants and give the Borrower the opportunity to participate in such discussions; provided, further, that the Borrower shall notify the Administrative Agent of any such visits, inspections or discussions prior to each occurrence thereof.

7.08 PLEDGED ASSETS.

(a) Within forty-five (45) Business Days following the Collateral Effective Date, the Loan Parties shall execute and deliver to the Administrative Agent the Pledge Agreement (which shall provide for pledge by each Loan Party of 100% of the issued and outstanding Equity Interests in each of its Wholly-Owned Subsidiaries that are Domestic Subsidiaries (other than Immaterial Subsidiaries) and 65% of the total combined voting power of the Equity Interests in each of its first tier Wholly-Owned Subsidiaries that are Foreign Subsidiaries (other than Immaterial Subsidiaries)) and the following agreements, documents and instruments, each in form, content and scope reasonably satisfactory to the Administrative Agent:

(i) all stock certificates evidencing the Equity Interests in the Subsidiaries of each Loan Party pledged pursuant to the Pledge Agreement (including, prior to the merger of the Borrower and Holdings, the stock certificates representing the stock of the Borrower), together with duly executed in blank undated stock powers attached thereto;

(ii) duly executed UCC financing statements for each appropriate jurisdiction as is necessary, in the Administrative Agent's reasonable discretion, to perfect the Lenders' security interest in the Collateral;

(iii) certified resolutions and other organizational and authorizing documents for each such Loan Party; and

(iv) an opinion of counsel addressed to the Administrative Agent, on behalf of the Lenders, covering such issues as reasonably requested by the Administrative Agent, including, without limitation, the legality, validity, binding effect and enforceability of the documentation referred to above and the attachment and perfection of the Liens thereunder.

(b) If at any time the Borrower or any Subsidiary is required to provide a Lien with respect to any Equity Interests of any of its Subsidiaries to the holders of the Indebtedness permitted to be secured hereunder, the Borrower shall cause such Persons to provide the Administrative Agent, on the behalf of the Lenders, with an equal and ratable lien in such Equity Interests pursuant to documentation substantially in the form of the Pledge Agreement and other documents in form, content and scope reasonably satisfactory to the Administrative Agent identified in Section 7.08(a) above at the same time the Borrower and such other Persons provide a Lien on such Equity Interests to the holders of such

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Indebtedness permitted to be secured hereunder. The Borrower agrees that the Liens contemplated by the preceding sentence may not be granted until such time as the Lenders have entered into a satisfactory intercreditor agreement with the holders of the Indebtedness permitted to be secured hereunder.

(c) Within 30 days following (i) any Collateral Release Date or (ii) the Collateral Termination Date, if the Collateral Termination Date shall have occurred after the Collateral Effective Date, the Administrative Agent shall take all action reasonably necessary to release its Lien on the Collateral, including, without limitation, return of stock certificates and stock powers and filing of UCC termination statements, all at the Borrower's expense.

7.09 COLLATERAL AND GUARANTEES.

(a) At all times following the Collateral Effective Date and prior to any Collateral Release Date, with respect to any Equity Interests of any newly created or acquired Wholly-Owned Subsidiary (other than any Immaterial Subsidiary) or any newly issued Equity Interests of any existing Wholly-Owned Subsidiary (other than any Immaterial Subsidiary) acquired by the Borrower or any of its Subsidiaries that is intended to be subject to the Lien created by the Pledge Agreement (as described in Section 7.08(a)) but which is not so subject, promptly (and in any event within thirty (30) days after the acquisition, creation or issuance thereof): (i) execute and deliver to the Administrative Agent such amendments to the Pledge Agreement or such other documents as the Administrative Agent shall deem necessary to grant to the Administrative Agent, for the benefit of the holders of the Obligations, a Lien on such Equity Interests (provided that, in no event, shall any Loan Party be required to pledge more than 65% of the total voting power of the Equity Interests in any Foreign Subsidiary), (ii) take all actions necessary or advisable to cause such Lien to be duly perfected in accordance with applicable Law, including delivering all such original stock certificates, if any, evidencing such Equity Interests to the Administrative Agent together with undated stock powers executed in blank therefor, and (iii) if reasonably requested by the Administrative Agent or the Required Lenders, deliver to the Administrative Agent legal opinions relating to the matters described in clauses (i) and (ii) immediately preceding, which opinions shall be in form and

substance, and from counsel, reasonably satisfactory to the Administrative Agent.

(b) At all times prior to the Guaranty Release Date, with respect to any Person that, subsequent to the Closing Date, becomes a direct or indirect Wholly-Owned Subsidiary that is a Domestic Subsidiary of the Borrower (other than an Immaterial Subsidiary) promptly (and in any event within thirty (30) days after such Person becomes a Subsidiary): (i) cause such new Subsidiary to become a Guarantor by executing and delivering to the Administrative Agent a Joinder Agreement in substantially the same form as Exhibit H and, at all times following the Collateral Effective Date but prior to any Collateral Release Date, to the extent such Subsidiary holds any Equity Interests of any Wholly-Owned Subsidiary that is not an Immaterial Subsidiary, to become a party to the Pledge Agreement and deliver all of the other items related to such pledged Equity Interests required by Section 7.08 and (ii) if reasonably requested by the Administrative Agent or the Required Lenders, deliver to the Administrative Agent legal opinions relating to the matters described in clause (i) immediately preceding, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to the Administrative Agent.

(c) As described in the foregoing provisions of Section 7.08 and this Section 7.09, (i) no Immaterial Subsidiary, Foreign Subsidiary or Non-Wholly Owned Subsidiary (except as provided in Section 7.09(d) or (e) below) of the Borrower or its Subsidiaries shall be required to become a Guarantor hereunder or grant a Lien on the Equity Interests of its Subsidiaries pursuant to the Pledge Agreement, (ii) no Equity Interests of an Immaterial Subsidiary (except as provided in Section 7.08(b)) shall be required to be pledged hereunder and (iii) no more than 65% of the total combined voting power of the Equity Interests in any direct or indirect Foreign Subsidiary of the Borrower shall be required to be pledged

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hereunder; provided, that if any Domestic Subsidiary that is not wholly owned thereafter becomes a Wholly Owned Subsidiary prior to the Guaranty Release Date or if any Immaterial Subsidiary that is a Domestic Subsidiary ceases to be an Immaterial Subsidiary prior to the Guaranty Release Date, then each such Subsidiary shall become a Guarantor under this Agreement and if such event occurs after the Collateral Effective Date but prior to any Collateral Release Date, the Borrower shall grant to the Administrative Agent, on behalf of the Lenders, a Lien on its Equity Interests in accordance with the terms of the Pledge Agreement and deliver all of the items related to the pledge of such Equity Interests required by Section 7.08 with respect to such Equity Interests.

(d) Notwithstanding anything to the contrary contained in this Agreement, prior to the Guaranty Release Date, the aggregate amount of the Non-Loan Party Operating Assets shall at no time be greater than 25% of the Total Assets.

(e) Notwithstanding anything to the contrary contained in this Agreement, if at any time any Subsidiary that is not required to be a Guarantor hereunder provides a guarantee of the Borrower's obligations in respect of any Indebtedness of the type described in any of clauses (a), (e) or (f) of the definition of "Indebtedness" contained in Section 1.01, then promptly (and in any event within 30 days thereof), the Borrower cause such Subsidiary to (i) become a Guarantor hereunder by executing and delivering to the Administrative Agent a Joinder Agreement or such other documents as the Administrative Agent shall reasonably deem appropriate for such purpose, and (ii) if reasonably requested by the Administrative Agent, deliver to the Administrative Agent legal opinions relating to the matters described in clause (i) immediately preceding, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to the Administrative Agent.

7.10 GOVERNMENT CONTRACTS.

The Borrower and its Subsidiaries shall apply for and maintain all material facility security clearances and personnel security clearances required of the Borrower under all applicable Laws to perform and deliver under any and all government contracts and as otherwise may be necessary to continue to perform the business of the Borrower and its Subsidiaries, except where failure to do so could not reasonably be expected to have a Material Adverse Effect.

7.11 FURTHER ASSURANCES REGARDING COLLATERAL.

At all times following the Collateral Effective Date and prior to any Collateral Release Date, Holdings and the Borrower shall, and shall cause each of its Subsidiaries to, upon the reasonable request of the Administrative Agent, promptly perform or cause to be performed any and all acts and execute or cause to be executed and delivered any and all documents which are necessary to maintain in favor of the Administrative Agent, for the benefit of the holders of the Obligations, Liens on the Collateral that are duly perfected in accordance with all applicable Laws.

ARTICLE VIII NEGATIVE COVENANTS

So long as any Lender shall have any Commitment hereunder, any Loan or other Obligation hereunder shall remain unpaid or unsatisfied, or any Letter of Credit shall remain outstanding, the Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly:

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8.01 LIENS.

Create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired, other than the following:

(a) Liens pursuant to any Loan Document;

(b) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, provided that adequate reserves with respect thereto are maintained on the books of the Borrower or its Subsidiaries, as the case may be, in conformity with GAAP;

(c) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings;

(d) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation and deposits securing liability to insurance carriers under insurance or self-insurance arrangements;

(e) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(f) easements, rights-of-way, zoning restrictions, other restrictions and other similar encumbrances previously or hereafter incurred in the ordinary course of business which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or such Subsidiary;

(g) Liens on property or assets of the Borrower or any of its Subsidiaries existing on the Closing Date except for any such Lien securing Indebtedness in excess of \$5,000,000 that is not set forth on Schedule 8.01, provided that all Liens permitted by this paragraph (g) shall secure only those obligations which they secure on the Closing Date (assuming that any unfunded commitments in respect thereof have been fully funded);

(h) Liens upon any property acquired, constructed or improved by the Borrower or any Subsidiary which are created or incurred within 180 days of such acquisition, construction or improvement to secure or provide for the payment of the purchase price of such property or the cost of such construction or improvement, including carrying costs (but no other amounts), provided that any such Lien shall not apply to any other property of the Borrower or any Subsidiary (other than after acquired title in or on such property and proceeds of the existing collateral in accordance with the instrument creating such Lien);

(i) Liens on the property or assets of a Person which becomes a Subsidiary after the Closing Date, provided that (i) such Liens existed at the time such Person became a Subsidiary and were not created in anticipation thereof, (ii) any such Lien is not expanded to cover any property or assets of such Person after the time such Person becomes a Subsidiary (other than after acquired title in or on such property and proceeds of the existing collateral in accordance with the instrument creating such Lien), and (iii) the amount of the obligations secured thereby is not increased (assuming that any unfunded commitments in respect thereof have been fully funded);

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(j) Liens on property and assets securing obligations assumed by the Borrower or a Subsidiary in connection with an Acquisition of such property or assets, provided that (i) such Liens existed at the time of such Acquisition and were not created in anticipation thereof, (ii) any such Lien is not expanded to cover any other property or assets (other than after acquired title in or on the property or assets acquired and proceeds of the existing collateral in accordance with the instrument creating such Lien) and (iii) the amount of obligations secured thereby is not increased (assuming that any unfunded commitments in respect thereof have been fully funded);

(k) Liens on the property of the Borrower or any of its Subsidiaries in favor of landlords securing licenses, subleases or leases entered into in the ordinary course of business;

(l) licenses, leases or subleases permitted hereunder granted to other Persons not interfering in any material respect in the business of the Borrower or any of its Subsidiaries;

(m) so long as no Default or Event of Default shall have occurred and be continuing under clause Section 9.01(h), attachment or judgment Liens;

(n) Liens arising from precautionary Uniform Commercial Code financing statement filings with respect to operating leases or consignment arrangements entered into by the Borrower, or any of its subsidiaries in the ordinary course of business;

(o) Liens in favor of a banking institution arising by operation of law encumbering deposits (including the right of set-off) held by such banking institutions incurred in the ordinary course of business and which are within the general parameters customary in the banking

industry;

(p) Liens securing obligations in respect of trade letters of credit covering the goods (or the documents of title in respect of such goods) financed by such trade letters of credit and the proceeds and products thereof;

(q) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(r) Liens referred to in paragraphs (a) through (q) of this Section 8.01 with respect to extensions, renewals and replacements of obligations secured thereby, provided that any such extension, renewal or replacement Lien shall be limited to the property or assets covered by the Lien extended, renewed or replaced (other than after acquired title in or on such property or assets and proceeds of the existing collateral in accordance with the instrument creating such Lien) and that the obligations secured by any such extension, renewal or replacement Lien shall be in an amount not greater than the amount of the obligations secured by the Lien extended, renewed or replaced (assuming that any unfunded commitments in respect of such extended, renewed or replaced obligations have been fully funded);

(s) Liens arising in connection with any Permitted Receivables Program (to the extent the sale by the Borrower or the applicable Subsidiary of its accounts receivable is deemed to give rise to a Lien in favor of the purchaser thereof in such accounts receivable or the proceeds thereof);

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(t) Liens securing Synthetic Lease Obligations incurred to finance the acquisition, construction or improvement of any fixed or capital assets acquired by the Borrower or any Subsidiary after the Closing Date;

(u) Liens on Equity Interests of a Person being acquired by the Borrower or any Subsidiary as security for such purchaser's deferred payment obligations with respect thereto;

(v) Liens (not otherwise permitted hereunder) which secure obligations in an aggregate amount at any time outstanding (when aggregated with, at all times following the Guaranty Release Date, the aggregate principal amount of all Indebtedness of the Subsidiaries of the Borrower permitted by Section 8.03(h)) not to exceed 5% of Consolidated Total Assets; and

(w) Liens on Equity Interests of any Subsidiary (not otherwise permitted hereunder) which secure other Indebtedness of Holdings, the Borrower or any of its Subsidiaries not prohibited hereunder; provided that the Administrative Agent, for the benefit of the holders of the Obligations, shall have an equal and ratable Lien on such Equity Interests pursuant to documentation (including intercreditor provisions) reasonably satisfactory to the Administrative Agent.

8.02 INVESTMENTS.

Make any Investments, except:

(a) Investments (including Acquisitions) in any Person (other than Holdings); provided that (i) (both before and after giving effect to any such Investment), there shall exist no Default or Event of Default, (b) if any such Investment is an Acquisition, such Acquisition shall be of assets or Equity Interests of any Person engaged in a Similar Business, (c) if any such Investment is an Acquisition of a majority of the Equity Interests of any Person, such Person's board of directors or similar governing body shall have approved such Acquisition, (d) after giving effect to any Acquisition on a Pro Forma Basis, the Borrower shall be in compliance with Section 8.08(a), (b), and (c) and (e) after giving effect to any Acquisition (subject to the grace period provided for in Section 7.09(b)), the Borrower shall be in compliance with Section 7.09(d);

(b) intercompany advances by the Borrower or any Subsidiary to Holdings to fund payments of interest on Indebtedness (other than Disqualified Preferred Stock) of Holdings or to fund payments of dividends on Disqualified Preferred Stock issued by Holdings; provided, that, (i) any such Indebtedness or Disqualified Preferred Stock is guaranteed by the Borrower, and (ii) the proceeds received by Holdings from the issuance of such Indebtedness or Disqualified Preferred Stock shall have been invested by Holdings in the Borrower (or used to refinance in full Indebtedness (including Disqualified Preferred Stock), the proceeds of which were previously invested in the Borrower);

(c) intercompany advances by the Borrower or any Subsidiary to Holdings to fund payments and prepayments (whether optional or mandatory) of principal of, Indebtedness (other than Disqualified Preferred Stock) of Holdings, and to fund optional and mandatory redemptions in respect of Disqualified Preferred Stock issued by Holdings, provided that (i) any such Indebtedness or Disqualified Preferred Stock is guaranteed by the Borrower and (ii) the aggregate amount of such intercompany advances made pursuant to this Section 8.02(c), together with the aggregate amount of dividends or distributions made by the Borrower pursuant to Section 8.06(c), shall not, at any time, exceed the aggregate amount of investments made by Holdings in the

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Borrower with the proceeds received by Holdings in respect of any issuance of Indebtedness (including Disqualified Preferred Stock) by Holdings subsequent to the Closing Date which is so guaranteed by the Borrower; and

(d) Investments by the Borrower or any Subsidiary in Holdings not permitted by Section 8.02(b) or (c); provided that (i) no Default or Event of Default shall have occurred and be continuing or result therefrom and (ii) the aggregate amount of the sum (following the Closing Date) of (A) the aggregate amount of Investments made by the Borrower or any Subsidiary in Holdings (other than any intercompany advances made by the Borrower or any Subsidiary pursuant to Section 8.02(b) or (c)) plus (B) the Equity Interests or Disqualified Preferred Stock repurchased, redeemed, retired, acquired or otherwise receiving payments on account of any return of capital by the Borrower (other than any repurchase, redemption, retirement, acquisition or other payment on account of any return of capital pursuant to Section 8.06(c) or (e)) plus (C) the amount of dividend payments or distributions made by the Borrower in respect of its Equity Interests or Disqualified Preferred Stock (other than any dividends or distributions permitted by Section 8.06(a), (b), (c) or (d)) plus (D) the amount of Subordinated Debt prepaid, redeemed, purchased, defeased or otherwise satisfied by the Borrower or any Subsidiary (other than any prepayment, redemption, purchase, defeasance or other satisfaction of Subordinated Debt pursuant to Section 8.10(a)(i) or (ii)), shall not exceed an aggregate amount equal to the sum of \$1,000,000,000 increased on a cumulative basis as of the end of each fiscal quarter of the Borrower, commencing with the fiscal quarter ending March 31, 2005 by an amount equal to 50% of Consolidated Net Income for the fiscal quarter then ended (or, if such Consolidated Net Income for such fiscal quarter is a deficit, less 50% of such deficit) plus an amount equal to 100% of the proceeds from any issuances of Equity Interests by Holdings (provided the proceeds from such any such issuance (or, without duplication, from any Equity Interests or Indebtedness of Holdings purchased, redeemed or cancelled in conversion by virtue of such issuance) are (or were) invested in the Borrower) subsequent to the Closing Date plus 100% of the proceeds from any issuances of Indebtedness by Holdings (provided that (i) such Indebtedness is not guaranteed by the Borrower or any Subsidiary and (ii) the proceeds from such issuance (or, without duplication, from any Equity Interests or Indebtedness of Holdings purchased, redeemed or cancelled in conversion by virtue of such issuance) are (or were) invested in the Borrower subsequent to the Closing Date plus 100% of the proceeds from any issuance of Equity Interests by the Borrower (or, without duplication, from any Equity Interests or Indebtedness of the Borrower purchased, redeemed or cancelled in conversion by virtue of such issuance) subsequent to the Closing Date.

8.03 SUBSIDIARY INDEBTEDNESS.

After the Guaranty Release Date, permit any Subsidiary to create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness under the Loan Documents;

(b) Indebtedness issued to the Borrower or any other Subsidiary;

(c) Indebtedness of any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets (including Capital Lease Obligations), and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof; provided that such Indebtedness is incurred prior to or within 180 days after such acquisition or the completion of such construction or improvement;

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(d) Indebtedness of any Subsidiary incurred in connection with the issuance of any surety bonds, letters of credit or other similar bonds in the ordinary course of business;

(e) Indebtedness of the Subsidiaries arising in connection with the Permitted Receivables Programs;

(f) Synthetic Lease Obligations of any Subsidiary incurred to finance the acquisition, construction or improvement of any fixed or capital assets acquired by such Subsidiary subsequent to the Closing Date;

(g) any Guarantee provided by any Subsidiary to support Indebtedness of Holdings or the Borrower for borrowed money; provided that any such Subsidiary is also a Guarantor hereunder (whether or not the Guaranty Release Date has occurred); and

(h) Indebtedness, other than pursuant to the foregoing provisions of this Section 8.03, in an aggregate amount at any one time outstanding, together with the aggregate amount of Indebtedness secured by Liens permitted by Section 8.01(v), not to exceed 5% of Consolidated Total Assets.

8.04 FUNDAMENTAL CHANGES.

With respect solely to the Borrower, (i) merge, consolidate, liquidate, amalgamate, wind up or dissolve with or into another Person, or (ii) convey, sell, lease, assign, transfer or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its

property, business or assets (whether now owned or hereafter acquired) to or in favor of any Person, except that:

(a) any Person may merge into or consolidate with the Borrower in a transaction in which the Borrower is the surviving Person if no Event of Default or Default shall have occurred and be continuing or would occur immediately after giving effect thereto;

(b) the Borrower may make any conveyance, sale, assignment or disposition of assets permitted by Section 8.05; and

(c) Holdings may merge into or consolidate with the Borrower; provided that (i) the Borrower shall provide written notice to the Administrative Agent prior to such merger or consolidation and (ii) to the extent Holdings is the surviving Person, Holdings shall assume contemporaneously with such merger or consolidation all of the obligations of the Borrower under this Agreement and the other Loan Documents pursuant to documentation reasonably satisfactory to the Administrative Agent. Following any merger pursuant to this Section 8.04(c), all references to "Holdings" and to the "Borrower" shall be read as references to the Person surviving the merger.

8.05 LIMITATION ON SALE OF ASSETS.

Convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, receivables and leasehold interests), whether now owned or hereafter acquired, except:

(a) the sale or other disposition of obsolete, surplus or worn out property in the ordinary course of business;

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(b) the sale, lease, transfer or exchange of inventory in the ordinary course of business;

(c) transfers resulting from any casualty or condemnation of property or assets;

(d) intercompany sales or transfers of assets made in the ordinary course of business;

(e) licenses, leases or subleases of tangible property in the ordinary course of business;

(f) any consignment arrangements or similar arrangements for the sale of assets in the ordinary course of business;

(g) the sale or discount of overdue accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof;

(h) the sale of receivables in connection with any Permitted Receivables Program;

(i) licensing and cross-licensing arrangements involving technology or other intellectual property of the Borrower or a Subsidiary in the ordinary course of business;

(j) sales, transfers or other dispositions of any or all of its assets (upon voluntary liquidation or otherwise) to the Borrower or any Subsidiary of the Borrower;

(k) conveyances, sales, leases, assignments, transfers or other dispositions of any of its property, business or assets if the Net Proceeds thereof shall be used by the Borrower or such Subsidiary to acquire assets to be employed in the business (including any Similar Business) of the Borrower or its Subsidiaries or make Acquisitions of Persons engaged in a Similar Business in accordance with Section 8.02(a) within 365 days of receipt thereof; provided, that if such Net Proceeds are not so used, an amount equal to the Cumulative Asset Sale Amount determined on the last day of each such 365-day period, if any, shall be applied toward the prepayment of the Loans and the permanent reduction of the Commitments on the 366th day after receipt of such Net Proceeds (each, a "Required Prepayment Date"); and

(l) the conveyance, sale, assignment or other disposition of assets, in addition to those permitted by any other clause of this Section 8.05, provided, that the aggregate value of all such assets conveyed, sold, assigned or otherwise disposed of pursuant to this Section 8.05(l) during the term of this Agreement shall not exceed 7.5% of the Consolidated Total Assets.

8.06 RESTRICTED PAYMENTS.

Declare or make, directly or indirectly, any Restricted Payment, except that:

(a) the Borrower may declare and make dividend payments or other distributions payable solely in the common stock or other Equity Interests of the Borrower;

(b) the Borrower may declare and make dividend payments or other distributions in respect of its Equity Interests to fund payments of interest on Indebtedness (other than Disqualified Preferred Stock) of Holdings, or to fund payments of dividends on Disqualified Preferred Stock issued by Holdings; provided, that, (i) any such Indebtedness or

Disqualified Preferred Stock is guaranteed by the Borrower, and (ii) the proceeds received by Holdings from

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the issuance of such Indebtedness or Disqualified Preferred Stock shall have been invested by Holdings in the Borrower (or used to refinance in full Indebtedness (including any Disqualified Preferred Stock), the proceeds of which were previously invested in the Borrower);

(c) the Borrower may declare and make dividend payments or other distributions in respect of its Equity Interests to fund payments and prepayments (whether optional or mandatory) of principal of Indebtedness (other than Disqualified Preferred Stock) of Holdings, and to fund payments of optional and mandatory redemptions in respect of Disqualified Preferred Stock issued by Holdings, provided that (i) any such Indebtedness or Disqualified Preferred Stock is guaranteed by the Borrower and (ii) the aggregate amount of such dividends and distributions made under this Section 8.06(c), together with the aggregate amount of intercompany advances made by the Borrower or any Subsidiary to Holdings pursuant to Section 8.02(c), shall not, at any time, exceed the aggregate amount of investments made by Holdings in the Borrower with the proceeds received by Holdings in respect of any issuance of Indebtedness (including Disqualified Preferred Stock) by Holdings subsequent to the Closing Date which is so guaranteed by the Borrower;

(d) the Borrower may declare and make regularly scheduled dividend payments on Disqualified Preferred Stock issued by the Borrower;

(e) the Borrower may purchase, redeem, retire, acquire or otherwise make any payment on account of any return of capital in respect of, directly or indirectly, its own Disqualified Preferred Stock; provided that the aggregate amount of such Disqualified Preferred Stock repurchased, redeemed, retired, acquired or otherwise receiving payments on account of any return of capital by the Borrower under this Section 8.06(e) shall not, at any time, exceed the aggregate amount of the proceeds received by the Borrower in respect of any issuance of Disqualified Preferred Stock by the Borrower (or from any Equity Interests or Indebtedness of the Borrower purchased, redeemed or cancelled in conversion by virtue of such issuance) subsequent to the Closing Date;

(f) the Borrower may otherwise purchase, redeem, retire, acquire, or otherwise make any payment on account of any return of capital in respect of, directly or indirectly, its own Equity Interests or Disqualified Preferred Stock and may declare and make dividend payments or other distributions thereon (whether in cash, securities or property); provided that (i) no Default or Event of Default shall have occurred and be continuing or result therefrom and (ii) the aggregate amount of the sum (following the Closing Date) of (A) the Equity Interests or Disqualified Preferred Stock repurchased, redeemed, retired, acquired or otherwise receiving payments on account of any return of capital by the Borrower (other than any repurchase, redemption, retirement, acquisition or other payment on account of any return of capital pursuant to Section 8.06(c), or (e)) plus (B) the amount of dividend payments or distributions made by the Borrower in respect of its Equity Interests or Disqualified Preferred Stock (other than any dividend or distribution made pursuant to Section 8.06(a), (b), (c) or (d)) plus (C) the aggregate amount of Investments made by the Borrower or any Subsidiary in Holdings (other than any intercompany advances made by the Borrower or any Subsidiary pursuant to Section 8.02(b) or (c)) plus (D) the aggregate amount of Subordinated Debt prepaid, redeemed, purchased, defeased or otherwise satisfied by the Borrower or any Subsidiary (other than any prepayment, redemption, purchase, defeasance or other satisfaction of Subordinated Debt pursuant to Section 8.10(a)(i) or (ii)), shall not exceed an aggregate amount equal to the sum of \$1,000,000,000 increased on a cumulative basis as of the end of each fiscal quarter of the Borrower, commencing with the fiscal quarter ending March 31, 2005 by an amount equal to 50% of Consolidated Net Income for the fiscal quarter then ended (or, if such Consolidated Net Income for such quarter is a deficit, less

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50% of such deficit) plus an amount equal to 100% of the proceeds from any issuances of Equity Interests by Holdings (provided the proceeds from such issuance (or, without duplication, from any Equity Interests or Indebtedness of Holdings purchased, redeemed or cancelled in conversion by virtue of such issuance) are (or were) invested in the Borrower) subsequent to the Closing Date plus 100% of the proceeds from any issuances of Indebtedness by Holdings (provided that (i) such Indebtedness is not guaranteed by the Borrower and (ii) the proceeds from such issuance (or, without duplication, from any Equity Interests or Indebtedness of Holdings purchased, redeemed or cancelled in conversion by virtue of such issuance) are (or were) invested in the Borrower) subsequent to the Closing Date plus 100% of the proceeds from any issuances of Equity Interests by the Borrower (or, without duplication, from any Equity Interests or Indebtedness of the Borrower purchased, redeemed or cancelled in conversion by virtue of such issuance) subsequent to the Closing Date;

(g) any Subsidiary may purchase, redeem, retire, acquire, or otherwise make any payment on account of any return of capital in respect of directly or indirectly, any of its Equity Interests; and

(h) any Subsidiary may declare and make dividend payments or other distributions on or in respect of its Equity Interests (whether in cash, securities or property); provided that solely in the case of any dividend or distribution payable on or in respect of any class or series of Equity Interests issued by a Non-Wholly Owned Subsidiary, the Borrower or any other Subsidiary receives at least its pro rata share of such dividend or distribution in accordance with its Equity Interests in such class or series of Equity Interests, if any.

8.07 TRANSACTIONS WITH AFFILIATES.

(a) Enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of property or the rendering of any service, with any Affiliate (other than the Borrower or any Subsidiary) unless such transaction is (i) otherwise permitted under this Agreement and (ii) upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a Person which is not an Affiliate.

(b) In addition, notwithstanding the foregoing, the Borrower and its Subsidiaries shall be entitled to make the following payments and/or to enter into the following transactions:

(i) the payment of reasonable and customary fees and reimbursement of expenses payable to directors of the Borrower and Holdings or to any Plan, Plan administrator or Plan trustee;

(ii) loans and advances to directors, officers and employees to the extent permitted by Section 8.02;

(iii) the arrangements with respect to the procurement of services of directors, officers, independent contractors, consultants or employees in the ordinary course of business and the payment of reasonable fees in connection therewith;

(iv) transactions with Holdings permitted by this Agreement; and

(v) payments to directors and officers of the Borrower and its Subsidiaries in respect of the indemnification of such Persons in such respective capacities from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or

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disbursements, as the case may be, pursuant to the Organization Documents or other corporate action of the Borrower or its Subsidiaries, respectively, or pursuant to applicable law.

8.08 FINANCIAL COVENANTS.

(a) Consolidated Interest Coverage Ratio. Permit the Consolidated Interest Coverage Ratio as of the end of any fiscal quarter of the Borrower to be less than 3.0 to 1.0

(b) Consolidated Leverage Ratio. Permit the Consolidated Leverage Ratio as of the end of any fiscal quarter of the Borrower to be greater than 4.0 to 1.0.

(c) Consolidated Senior Leverage Ratio. Permit the Consolidated Senior Leverage Ratio as of the end of any fiscal quarter of the Borrower to be greater than 3.0 to 1.0.

8.09 LIMITATION ON NEGATIVE PLEDGE CLAUSES.

Enter into any Contractual Obligation (other than this Agreement or any other Loan Document) that limits the ability of any Loan Party to pledge its Equity Interests in any of its Subsidiaries pursuant to the terms of the Loan Documents, except for acquisition documentation which requires the pledge by the Borrower or any Subsidiary of Equity Interests of the Person being acquired as security for the purchaser's deferred payment obligations thereunder.

8.10 PREPAYMENT OF SUBORDINATED DEBT.

(a) Make any optional payment or prepayment on or redemption or purchase of, or deliver any funds to any trustee for the prepayment, redemption or defeasance of, any Subordinated Debt prior to the scheduled maturity thereof, or (b) amend, modify or change, or consent or agree to any amendment, modification or change to any of the material terms of the documentation governing any such Subordinated Debt if any such amendment, modification, or change or consent or agreement to any such amendment, modification or change would cause the Subordinated Debt to no longer satisfy the requirements set out in clauses (b) and (c) of the definition of "Additional Subordinated Debt", except:

(i) pursuant to a refinancing or refunding of Subordinated Debt with Additional Subordinated Debt; provided that no Default or Event of Default shall have occurred and be continuing giving effect to any such refinancing or refunding;

(ii) the prepayment, redemption, purchase, defeasance or other satisfaction of Subordinated Debt prior to the scheduled maturity thereof in a principal amount not to exceed the principal amount of Additional Subordinated Debt issued after the Closing Date to the extent not used to refinance or refund Subordinated Debt pursuant to Section 8.10(b)(i); provided that no Default or Event of Default shall have occurred and be continuing at the time of any such prepayment, redemption, purchased,

defeasance or other satisfaction or after giving effect thereto; and

(iii) other prepayments, redemptions, purchases, defeasances or other satisfaction of Subordinated Debt prior to the scheduled maturity thereof; provided that (A) no Default or Event of Default shall have occurred and be continuing or result therefrom and (B) the aggregate amount of the sum (following the Closing Date) of (w) the amount of Subordinated Debt prepaid, redeemed, purchased, defeased or otherwise satisfied by the Borrower or any Subsidiary prior to the maturity thereof (other than any prepayment, redemption, purchase, defeasance or other satisfaction of Subordinated Debt pursuant to Section 8.10(a)(i) or (ii)) plus (x) the Equity

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Interests or Disqualified Preferred Stock repurchased, redeemed, retired, acquired or otherwise receiving payments on account of any return of capital by the Borrower (other than any repurchase, redemption, retirement, acquisition or other payment on account of any return of capital pursuant to Section 8.06(c), or (e)) plus (y) the amount of dividend payments or distributions made by the Borrower in respect of its Equity Interests or Disqualified Preferred Stock (other than any dividend or distribution made pursuant to Section 8.06(a), (b) (c) or (d)) plus (z) the aggregate amount of investments made by the Borrower or any Subsidiary in Holdings (other than any intercompany advances made by the Borrower or any Subsidiary pursuant to Section 8.02(b) or (c)), shall not exceed an aggregate amount equal to the sum of \$1,000,000,000 increased on a cumulative basis as of the end of each fiscal quarter of the Borrower, commencing with the fiscal quarter ending March 31, 2005 by an amount equal to 50% of Consolidated Net Income for the fiscal quarter then ended (or, if such Consolidated Net Income for such quarter is a deficit, less 50% of such deficit) plus an amount equal to 100% of the proceeds from any issuances of Equity Interests by Holdings (provided the proceeds from such issuance (or, without duplication, from any Equity Interests or Indebtedness of Holdings purchased, redeemed or cancelled in conversion by virtue of such issuance) are (or were) invested in the Borrower) subsequent to the Closing Date plus 100% of the proceeds from any issuances of Indebtedness by Holdings (provided that (i) such Indebtedness is not guaranteed by the Borrower and (ii) the proceeds from such issuance (or, without duplication, from any Equity Interests or Indebtedness of Holdings purchased, redeemed or cancelled in conversion by virtue of such issuance) are (or were) invested in the Borrower) subsequent to the Closing Date plus 100% of the proceeds from any issuances of Equity Interests by the Borrower (or, without duplication, from any Equity Interests or Indebtedness of the Borrower purchased, redeemed or cancelled in conversion by virtue of such issuance) subsequent to the Closing Date.

8.11 BORROWER EQUITY INTERESTS.

Holdings hereby agrees that it shall not create, incur, assume or suffer to exist any Lien upon the Equity Interests in the Borrower other than (a) Liens on Equity Interests in the Borrower which secure Indebtedness of Holdings, the Borrower or any of its Subsidiaries not prohibited hereunder, provided that the Administrative Agent, for the benefit of the holders of the Obligations, shall have an equal and ratable Lien on such Equity Interests pursuant to documentation (including intercreditor provisions) reasonably satisfactory to the Administrative Agent and (b) unless Liens have already been provided in favor of the Administrative Agent pursuant to clause (a) above, following the Collateral Effective Date, Liens on Equity Interests in the Borrower in favor of the Administrative Agent, for the benefit of the holders of the Obligations.

8.12 HOLDINGS.

(a) Holdings shall not have outstanding or acquire any Investment in any Person other than (i) Investments in the Equity Interests of the Borrower and Cash Equivalents and (ii) Investments in any trust related to issuance of Indebtedness or Equity Interests.

(b) Holdings shall not engage in any business activity or own any assets other than (i) its ownership and voting of the Equity Interests of the Borrower and any trust related to any Indebtedness or Equity Interests, (ii) the negotiation, execution, delivery of, and the performance of its obligations under the Loan Documents to which it is a party and any instruments, documents or other agreements related to such Indebtedness or Equity Interests, (iii) Cash and Cash Equivalents, (iv) any other Investments permitted by Section 8.12(a) and (v) a guarantee of Indebtedness of the Borrower or any of its Subsidiaries which is, or may be, ratably secured pursuant to Section 8.01(w), provided that the guaranty of Holdings hereunder ranks pari passu in priority of payment with the guarantee of such other Indebtedness.

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ARTICLE IX EVENTS OF DEFAULT AND REMEDIES

9.01 EVENTS OF DEFAULT.

Any of the following shall constitute an Event of Default:

(a) Non- Payment. The Borrower or any other Loan Party shall fail to pay any principal of any Loan or any L/C Obligation when due in accordance with the terms thereof or hereof; or the Borrower or any Loan Party shall fail to pay any interest on any Loan or on any L/C Obligation, or any other amount payable hereunder or under any other Loan

Document, within five days after any such interest or other amount becomes due in accordance with the terms thereof or hereof;

(b) Representations and Warranties. Any representation or warranty made or deemed made by the Borrower or any other Loan Party herein or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Loan Document shall prove to have been incorrect in any material respect on or as of the date made or deemed made;

(c) Specific Covenants. The Borrower or any other Loan Party shall default in the observance or performance of any agreement contained in Article VIII, Section 7.03(a) or Section 4.01;

(d) Other Defaults. The Borrower or any other Loan Party shall default in the observance or performance of any other agreement contained in this Agreement or any other Loan Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent;

(e) Cross-Default. Holdings, the Borrower or any of its Subsidiaries shall (i) default (x) in any payment of principal of or interest of any Indebtedness (other than the Loans, the L/C Obligations and any intercompany debt) or Swap Contract Obligations or (y) in the payment of any Guarantee (excluding any guaranties of the Obligations), beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness, Swap Contract Obligation or Guarantee was created; or (ii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness, Swap Contract Obligation or Guarantee or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Guarantee (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or such Guarantee to become payable; provided, however, that no Default or Event of Default shall exist under this paragraph unless (i) the aggregate amount of Indebtedness, Swap Contract Obligations and/or Guarantees in respect of which any default or other event or condition referred to in this paragraph shall have occurred shall be equal to at least the Threshold Amount and (ii) such default (if other than a payment default or a default that has resulted in acceleration of such other Indebtedness) continues for a period in excess of 10 days;

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(f) Insolvency Proceedings, Etc. (i) Holdings, the Borrower or any of its Subsidiaries (other than any Immaterial Subsidiary) shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian, conservator or other similar official for it or for all or any substantial part of its assets, or Holdings, the Borrower or any of its Subsidiaries (other than any Immaterial Subsidiary) shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against Holdings, the Borrower or any of its Subsidiaries (other than Immaterial Subsidiaries) any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against Holdings, Borrower or any of its Subsidiaries (other than any Immaterial Subsidiary) any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) Holdings, the Borrower or any of its Subsidiaries (other than any Immaterial Subsidiary) shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) Holdings, the Borrower or any of its Subsidiaries (other than any Immaterial Subsidiary) shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due;

(g) ERISA. (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan or any Lien in favor of the PBGC or a Plan shall arise on the assets of the Borrower or any Commonly Controlled Entity, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, reasonably likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of

Title IV of ERISA, (v) the Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other similar event or condition shall occur or exist with respect to a Plan that is not in the ordinary course; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could reasonably be expected to have a Material Adverse Effect;

(h) Judgments. One or more judgments or decrees shall be entered against Holdings, the Borrower or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by insurance (which coverage has been acknowledged by the appropriate insurers)) of the Threshold Amount or more, and all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof;

(i) Pledge Agreement. (i) The Pledge Agreement shall cease, for any reason, to be in full force and effect (unless released by the Administrative Agent at the direction of all of the Lenders or as otherwise permitted under this Agreement or the other Loan Documents), or the

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Borrower or any other Loan Party which is a party to the Pledge Agreements shall so assert or (ii) the Lien created by the Pledge Agreement shall cease to be enforceable and of the same effect and priority purported to be created thereby, except to the extent that any such loss of perfection or priority results from the failure of the Administrative Agent to maintain possession of certificates actually delivered to it representing securities pledged under the Pledge Agreement or to file Uniform Commercial Code continuation statements, (and, if such invalidity is such so as to be amenable to cure without materially disadvantaging the position of the Administrative Agent and the Lenders, as the case may be, as secured parties thereunder, the Loan Party shall have failed to cure such invalidity within 30 days after notice from the Administrative Agent);

(j) Guarantee. The Guarantee of any Loan Party under the Loan Documents shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Loan Party of any Person acting on behalf of any Loan Party, shall deny or disaffirm its obligations under such Guarantee; or

(k) Change of Control. There shall have occurred a Change of Control.

Each notice given with respect to the occurrence of any Default or Event of Default shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower proposes to take with respect thereto.

9.02 REMEDIES UPON EVENT OF DEFAULT.

If any Event of Default occurs and is continuing, the Administrative Agent shall, at the request of, or may, with the consent of, the Required Lenders, take any or all of the following actions:

(a) declare the commitment of each Lender to make Loans and any obligation of each L/C Issuer to make L/C Credit Extensions to be terminated, whereupon such commitments and obligation shall be terminated;

(b) declare the unpaid principal amount of all outstanding Loans, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower;

(c) require that the Borrower Cash Collateralize the L/C Obligations (in an amount equal to the then Outstanding Amount thereof); and

(d) exercise on behalf of itself and the Lenders all rights and remedies available to it and the Lenders under the Loan Documents;

provided, however, that upon the occurrence of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States, the obligation of each Lender to make Loans and any obligation of each L/C Issuer to make L/C Credit Extensions shall automatically terminate, the unpaid principal amount of all outstanding Loans and all interest and other amounts as aforesaid shall automatically become due and payable, and the obligation of the Borrower to Cash Collateralize the L/C Obligations as aforesaid shall automatically become effective, in each case without further act of the Administrative Agent or any Lender.

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9.03 APPLICATION OF FUNDS.

After the exercise of remedies provided for in Section 9.02 (or after the Loans have automatically become immediately due and payable and the L/C Obligations have automatically been required to be Cash Collateralized as set

forth in the proviso to Section 9.02), any amounts received on account of the Obligations shall be applied by the Administrative Agent in the following order:

First, to payment of that portion of the Obligations constituting fees, indemnities, expenses and other amounts (including fees, charges and disbursements of counsel to the Administrative Agent and amounts payable under Article III) payable to the Administrative Agent in its capacity as such;

Second, to payment of that portion of the Obligations constituting fees, indemnities and other amounts (other than principal, interest and Letter of Credit Fees) payable to the Lenders and each L/C Issuer (including fees, charges and disbursements of counsel to the respective Lenders and each L/C Issuer and amounts payable under Article III), ratably among them in proportion to the respective amounts described in this clause Second payable to them;

Third, to payment of that portion of the Obligations constituting accrued and unpaid Letter of Credit Fees and interest on the Loans, the Unreimbursed Amounts and other Obligations, ratably among the Lenders and the L/C Issuers in proportion to the respective amounts described in this clause Third payable to them;

Fourth, to payment of that portion of the Obligations constituting unpaid principal of the Loans and Unreimbursed Amounts and breakage, termination or other payments, any amounts owing under or in respect of any Swap Contracts between any Loan Party and any Lender, or any Affiliate of a Lender, to the extent such Swap Contract is permitted by Section 8.03(j), amounts due under any Treasury Management Agreement between any Loan Party and any Lender or any Affiliate of a Lender, and to the Administrative Agent for the account of the applicable L/C Issuer, to Cash Collateralize that portion of L/C Obligations comprised of the aggregate undrawn amount of Letters of Credit, ratably among the Lenders and the L/C Issuers in proportion to the respective amounts described in this clause Fourth held by them; and

Last, the balance, if any, after all of the Obligations have been paid in full in cash, to the Borrower or as otherwise required by Law.

Subject to Section 2.03(c), amounts used to Cash Collateralize the aggregate undrawn amount of Letters of Credit pursuant to clause Fourth above shall be applied to satisfy drawings under such Letters of Credit as they occur. If any amount remains on deposit as Cash Collateral after all Letters of Credit have either been fully drawn or expired, such remaining amount shall be applied to the other Obligations, if any, in the order set forth above.

ARTICLE X ADMINISTRATIVE AGENT

10.01 APPOINTMENT AND AUTHORITY.

Each of the Lenders and the L/C Issuers hereby irrevocably appoint Bank of America to act on its behalf as the Administrative Agent hereunder and under the other Loan Documents and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms hereof or thereof, together with such actions and powers as are

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reasonably incidental thereto. The provisions of this Article are solely for the benefit of the Administrative Agent, the Lenders and the L/C Issuers, and neither the Borrower nor any other Loan Party shall have rights as a third party beneficiary of any of such provisions.

10.02 RIGHTS AS A LENDER.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Administrative Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

10.03 EXCULPATORY PROVISIONS.

The Administrative Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Administrative Agent:

(a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;

(b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Administrative Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein or in the other Loan Documents), provided that the Administrative Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Administrative Agent to liability or that is contrary to any Loan Document or applicable law; and

(c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Administrative Agent or any of its Affiliates in any capacity.

The Administrative Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Administrative Agent shall believe in good faith shall be necessary, under the circumstances as provided in Sections 11.01 and 9.02) or (ii) in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Administrative Agent by the Borrower, a Lender or an L/C Issuer.

The Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any

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Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article V or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

10.04 RELIANCE BY ADMINISTRATIVE AGENT.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of a Loan, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or an L/C Issuer, the Administrative Agent may presume that such condition is satisfactory to such Lender or such L/C Issuer unless the Administrative Agent shall have received notice to the contrary from such Lender or such L/C Issuer prior to the making of such Loan or the issuance of such Letter of Credit. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

10.05 DELEGATION OF DUTIES.

The Administrative Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

10.06 RESIGNATION OF ADMINISTRATIVE AGENT.

The Administrative Agent may at any time give notice of its resignation to the Lenders, the L/C Issuers and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrower (not to be unreasonably withheld), unless an Event of Default shall have occurred and is continuing, in which case the consent of the Borrower shall not be required, to appoint a successor, which shall be a bank with an office in the United States, or an Affiliate of any such bank with an office in the United States. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may on behalf of the Lenders and the L/C Issuers, appoint a successor Administrative Agent meeting the qualifications set forth above subject to the consent of the Borrower (not to be unreasonably withheld), unless an Event of Default shall have occurred and is continuing, in which case the consent of the Borrower shall not be required; provided that if the Administrative Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment or has been approved by the Borrower and the Lenders, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Administrative Agent

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on behalf of the Lenders or the L/C Issuers under any of the Loan Documents, the

retiring Administrative Agent shall continue to hold such collateral security until such time as a successor Administrative Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender and each L/C Issuer directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Administrative Agent, and the retiring Administrative Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the retiring Administrative Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 11.04 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Administrative Agent was acting as Administrative Agent.

Any resignation by Bank of America as Administrative Agent pursuant to this Section shall also constitute its resignation as an L/C Issuer and Swing Line Lender. Upon the acceptance of a successor's appointment as Administrative Agent hereunder, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the resigning Administrative Agent as an L/C Issuer and the Swing Line Lender, (b) the resigning Administrative Agent shall be discharged from all of its respective duties and obligations as an L/C Issuer and the Swing Line Lender hereunder or under the other Loan Documents, and (c) the other L/C Issuers shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to the retiring L/C Issuer to effectively assume the obligations of the retiring L/C Issuer with respect to such Letters of Credit.

10.07 NON-RELIANCE ON ADMINISTRATIVE AGENT AND OTHER LENDERS.

Each Lender and each L/C Issuer acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and each L/C Issuer also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

10.08 NO OTHER DUTIES, ETC.

Anything herein to the contrary notwithstanding, none of the Syndication Agent, Book Managers or Joint Lead Arrangers listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Administrative Agent, a Lender, an L/C Issuer or the Swing Line Lender hereunder.

10.09 ADMINISTRATIVE AGENT MAY FILE PROOFS OF CLAIM.

In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to any Loan Party, the Administrative Agent (irrespective of whether the principal of any Loan or L/C Obligation shall then be

due and payable as herein expressed or by declaration or otherwise and irrespective of whether the Administrative Agent shall have made any demand on the Borrower) shall be entitled and empowered, by intervention in such proceeding or otherwise

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loans, L/C Obligations and all other Obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of the Lenders, any L/C Issuer and the Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of the Lenders, the L/C Issuers and the Administrative Agent and their respective agents and counsel and all other amounts due the Lenders, the L/C Issuers and the Administrative Agent under Sections 2.03(i) and (j), 2.09 and 11.04) allowed in such judicial proceeding; and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender and each L/C Issuer to make such payments to the Administrative Agent and, in the event that the Administrative Agent shall consent to the making of such payments directly to the Lenders and the applicable L/C Issuer, to pay to the Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of the Administrative Agent and its agents and counsel, and any other amounts due the Administrative Agent under Sections 2.09 and 11.04.

Nothing contained herein shall be deemed to authorize the Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender or any L/C Issuer any plan of reorganization, arrangement, adjustment or composition affecting the Obligations or the rights of any Lender or to authorize the Administrative Agent to vote in respect of the claim of any Lender in any such proceeding.]

10.10 COLLATERAL AND GUARANTY MATTERS.

The Lenders and the L/C Issuers irrevocably authorize the Administrative Agent, at its option and in its discretion,

(a) to release any Lien on any property granted to or held by the Administrative Agent under any Loan Document (i) upon termination of the Aggregate Commitments and payment in full of all Obligations (other than contingent indemnification obligations) and the expiration or termination of all Letters of Credit, (ii) that is sold or otherwise transferred or disposed of, or to be sold, transferred or otherwise disposed of, as part of a sale, transfer or other disposition (including, without limitation, pursuant to a merger, consolidation, amalgamation, liquidation, winding up or dissolution) or other transaction permitted hereunder or under any other Loan Document (including, without limitation, to release any Lien on the Equity Interests of the Borrower in connection with a merger of the Borrower and Holdings pursuant to Section 8.04(c)), (iii) on any Collateral Release Date, (iv) on the Collateral Termination Date or (v) subject to Section 11.01, if approved, authorized or ratified in writing by the Required Lenders; and

(b) to release any Guarantor from its obligations under the Guaranty (i) if such Person ceases to be a Subsidiary as a result of a transaction permitted hereunder or (ii) following the Guaranty Release Date.

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ARTICLE XI MISCELLANEOUS

11.01 AMENDMENTS, ETC.

No amendment or waiver of any provision of this Agreement or any other Loan Document, and no consent to any departure by the Borrower or any other Loan Party therefrom, shall be effective unless in writing signed by the Required Lenders and the Borrower or the applicable Loan Party, as the case may be, and acknowledged by the Administrative Agent, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no such amendment, waiver or consent shall:

(a) extend or increase the Commitment of any Lender (or reinstate any Commitment terminated pursuant to Section 2.06 or Section 9.02) without the written consent of such Lender;

(b) postpone any date fixed by this Agreement or any other Loan Document for any payment (excluding mandatory prepayments) of principal, interest, fees or other amounts due to the Lenders (or any of them) without the written consent of each Lender directly affected thereby;

(c) reduce the principal of, or the rate of interest specified herein on, any Loan or any Unreimbursed Amount, or (subject to clause (iv) of the second proviso to this Section 11.01) any fees or other amounts payable hereunder or under any other Loan Document without the written consent of each Lender directly affected thereby; provided, however, that only the consent of the Required Lenders shall be necessary to amend the definition of "Default Rate" or to waive any obligation of the Borrower to pay interest or Letter of Credit Fees at the Default Rate;

(d) amend Section 1.08 or the definition of "Alternative Currency" without the written consent of each L/C Issuer;

(e) prior to the Guaranty Release Date, release all or substantially all of the Guarantors from its or their obligations under the Loan Documents, or after the Collateral Effective Date and prior to any Collateral Release Date, release all or substantially all of the Collateral, in each case, without the written consent of each Lender directly affected thereby; or

(f) change any provision of this Section or the definition of "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder without the written consent of each Lender (it being understood and agreed that notwithstanding this clause (f), with only the consent of the Required Lenders, (i) additional tranches of loans may be added hereunder and included in the determination of the Required Lenders and (ii) this Section 11.01 may be amended to permit class voting in connection with such tranches);

and, provided further, that (i) no amendment, waiver or consent shall, unless in writing and signed by the applicable L/C Issuer in addition to the Lenders required above, affect the rights or duties of the applicable L/C Issuer under this Agreement or any Issuer Document relating to any Letter of Credit issued or to be issued by it; (ii) no amendment, waiver or consent shall, unless in writing and signed by the Swing Line Lender in addition to the Lenders required above, affect the rights or duties of the Swing Line Lender under this Agreement; (iii) no amendment, waiver or consent shall, unless in writing and

signed by the Administrative Agent in addition to the Lenders required above, affect the rights or duties of the Administrative Agent under this Agreement or any other Loan Document; and (iv) the Fee Letter may be

amended, or rights or privileges thereunder waived, in a writing executed only by the parties thereto. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased or extended without the consent of such Lender.

11.02 NOTICES; EFFECTIVENESS; ELECTRONIC COMMUNICATION.

(a) Notices Generally. Except in the case of notices and other communications expressly permitted to be given by telephone (and except as provided in subsection (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopier as follows, and all notices and other communications expressly permitted hereunder to be given by telephone shall be made to the applicable telephone number, as follows:

(i) if to the Borrower, the Administrative Agent, any L/C Issuer or the Swing Line Lender, to the address, telecopier number, electronic mail address or telephone number specified for such Person on Schedule 11.02; and

(ii) if to any other Lender, to the address, telecopier number, electronic mail address or telephone number specified in its Administrative Questionnaire.

Notices sent by hand or overnight courier service, or mailed by certified or registered mail, shall be deemed to have been given when received; notices sent by telecopier shall be deemed to have been given when sent (except that, if not given during normal business hours for the recipient, shall be deemed to have been given at the opening of business on the next business day for the recipient). Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b).

(b) Electronic Communications. The Lenders and the L/C Issuers agree that the Administrative Agent may deliver notices and other communications to the Lenders and the L/C Issuers hereunder by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Administrative Agent, provided that the foregoing shall not apply to notices to any Lender or any L/C Issuer pursuant to Article II if such Lender or such L/C Issuer, as applicable, has notified the Administrative Agent that it is incapable of receiving notices under such Article by electronic communication. The Administrative Agent may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications.

Unless the Administrative Agent otherwise prescribes, (i) notices and other communications from the Administrative Agent to the Lenders and the L/C Issuers sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next business day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Platform. THE PLATFORM IS PROVIDED "AS IS" AND "AS AVAILABLE." THE AGENT PARTIES (AS DEFINED BELOW) DO NOT WARRANT THE ACCURACY OR

COMPLETENESS OF ANY MATERIALS AND/OR INFORMATION MADE AVAILABLE TO THE AGENT PARTIES BY THE BORROWER (THE "BORROWER MATERIALS") OR THE ADEQUACY OF THE PLATFORM, AND EXPRESSLY DISCLAIM LIABILITY FOR ERRORS IN OR OMISSIONS FROM THE BORROWER MATERIALS. NO WARRANTY OF ANY KIND, EXPRESS, IMPLIED OR STATUTORY, INCLUDING ANY WARRANTY OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, NON-INFRINGEMENT OF THIRD PARTY RIGHTS OR FREEDOM FROM VIRUSES OR OTHER CODE DEFECTS, IS MADE BY ANY AGENT PARTY IN CONNECTION WITH THE BORROWER MATERIALS OR THE PLATFORM. In no event shall the Administrative Agent or any of its Related Parties (collectively, the "Agent Parties") have any liability to the Borrower, any Lender, any L/C Issuer or any other Person for losses, claims, damages, liabilities or expenses of any kind (whether in tort, contract or otherwise) arising out of the Borrower's transmission or the Administrative Agent's transmission of the items delivered by the Borrower to the Administrative Agent pursuant to Section 7.01, Section 7.02 or Section 7.03 or any other materials and/or information delivered at the request of the Borrower through the Internet, except to the extent that such losses, claims, damages, liabilities or expenses result from the gross negligence or willful misconduct of such Agent Party; provided, however, that in no event shall any Agent Party have any liability to the Borrower, any Lender, any L/C Issuer or any other Person for indirect, special, incidental, consequential or punitive damages (as opposed to direct or actual damages).

(d) Change of Address, Etc. Each of the Borrower, the Administrative Agent and the Swing Line Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the other parties hereto. Each other Lender may change its address, telecopier or telephone number for notices and other communications hereunder by notice to the Borrower, the Administrative Agent and the Swing Line Lender. In addition, each Lender agrees to notify the Administrative Agent from time to time to ensure that the Administrative Agent has on record (i) an effective address, contact name, telephone number, telecopier number and electronic mail address to which notices and other communications may be sent and (ii) accurate wire instructions for such Lender.

(e) Reliance by Administrative Agent, L/C Issuer and Lenders. The Administrative Agent, the L/C Issuers and the Lenders shall be entitled to rely and act upon any notices (including telephonic Committed Loan Notices and Swing Line Loan Notices) from a Responsible Officer of the Borrower even if (i) such notices were not made in a manner specified herein, were incomplete or were not preceded or followed by any other form of notice specified herein, or (ii) the terms thereof, as understood by the recipient, varied from any confirmation thereof. All telephonic notices to and other telephonic communications with the Administrative Agent may be recorded by the Administrative Agent, and each of the parties hereto hereby consents to such recording.

11.03 NO WAIVER; CUMULATIVE REMEDIES.

No failure by any Lender, any L/C Issuer or the Administrative Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

11.04 EXPENSES; INDEMNITY; DAMAGE WAIVER.

(a) Costs and Expenses. The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates (including the reasonable fees, charges and

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disbursements of counsel for the Administrative Agent), in connection with the syndication of the credit facilities provided for herein, the preparation, negotiation, execution, delivery and administration of this Agreement and the other Loan Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the applicable L/C Issuer in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all reasonable out-of-pocket expenses incurred by the Administrative Agent, any Lender or any L/C Issuer (including the reasonable fees, charges and disbursements of any counsel for the Administrative Agent, any Lender or any L/C Issuer), in connection with the enforcement or protection of its rights (A) in connection with this Agreement and the other Loan Documents, including its rights under this Section, or (B) in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) Indemnification by the Borrower. The Borrower shall indemnify the Administrative Agent, each Lender and each L/C Issuer, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnatee") against, and hold each Indemnatee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the reasonable fees, charges and disbursements of any counsel for any Indemnatee), and shall indemnify and hold harmless each Indemnatee from all reasonable fees and time charges and disbursements for attorneys who may be employees of any Indemnatee, incurred by any Indemnatee or asserted against any Indemnatee by any third party or by the Borrower or any other Loan Party arising out of, in connection with, or as a result of (i) the execution or delivery of this Agreement, any other Loan Document or any agreement or instrument contemplated hereby or thereby, the performance by the parties hereto of their respective obligations hereunder or thereunder, the consummation of the transactions contemplated hereby or thereby, or, in the case of the Administrative Agent and its Related Parties only, the administration of this Agreement and the other Loan Documents and/or the syndication of the facilities contemplated by this Agreement, (ii) any Loan or Letter of Credit or the use or proposed use of the proceeds therefrom (including any refusal by the applicable L/C Issuer to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any violation of, noncompliance with or liability under, any Environmental Law applicable to the operations of the Borrower, any of its Subsidiaries or any of the properties (all the foregoing, collectively, the "indemnified liabilities"), it being understood that the Borrower shall have an obligation hereunder to any Lender, the L/C Issuer or the Administrative Agent with respect to any indemnified liabilities incurred by the Administrative Agent, any L/C Issuer or any Lender as a result of any Materials of Environmental Concern that are first manufactured, emitted, generated, treated, released, spilled, stored or disposed of on, at or from any property or any violation of any Environmental Law, which in any case first occurs on or with respect to such property (x) after the property is transferred to the Administrative Agent, any L/C Issuer or any Lender or their successors or assigns by foreclosure sale, deed in lieu of foreclosure, or similar transfer or, following such transfer and (y) in connection with, but prior to, the sale, leasing or other transfer of such property by the Administrative Agent, any L/C Issuer, or any Lender or their successors or assigns to one or more third parties; provided, however, that the

Borrower shall have no obligation hereunder to the Administrative Agent, any L/C Issuer or any Lender with respect to otherwise indemnified liabilities arising from the gross negligence or willful misconduct of the Administrative Agent, any L/C Issuer or any such Lender, or with respect to otherwise indemnified liabilities following the sale, leasing or other transfer of such property to one or more third parties.

(c) Reimbursement by Lenders. To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Administrative Agent, any L/C Issuer or any Related Party of any of the foregoing, each Lender severally agrees to pay to the Administrative Agent, such L/C Issuer or such Related Party, as the case may be,

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such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or any L/C Issuer in its capacity as such, or against any Related Party of any of the foregoing acting for the Administrative Agent or any L/C Issuer in connection with such capacity. The obligations of the Lenders under this subsection (c) are subject to the provisions of Section 2.12(d).

(d) Waiver of Consequential Damages, Etc. To the fullest extent permitted by applicable law, the Borrower shall not assert, and hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, the transactions contemplated hereby or thereby, any Loan or Letter of Credit or the use of the proceeds thereof. No Indemnitee referred to in subsection (b) above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems to the extent permitted by this Agreement or the other Loan Documents or the transactions contemplated hereby or thereby.

(e) Payments. All amounts due under this Section 11.04 shall be payable not later than ten Business Days after demand therefor.

(f) Survival. The agreements in this Section 11.04 shall survive the resignation of the Administrative Agent and any L/C Issuer, the replacement of any Lender, the termination of the Aggregate Commitments and the repayment, satisfaction or discharge of all the other Obligations.

11.05 PAYMENTS SET ASIDE.

To the extent that any payment by or on behalf of the Borrower is made to the Administrative Agent, any L/C Issuer or any Lender, or the Administrative Agent, any L/C Issuer or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Administrative Agent, such L/C Issuer or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and each L/C Issuer severally agrees to pay to the Administrative Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Administrative Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and each L/C Issuer under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

11.06 SUCCESSORS AND ASSIGNS.

(a) Successors and Assigns Generally. The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that neither the Borrower nor any other Loan Party may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Administrative Agent and each Lender, except pursuant to a merger or consolidation permitted by Section 8.04(c), and no Lender may

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assign or otherwise transfer any of its rights or obligations hereunder except (i) to an Eligible Assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section (and any other attempted assignment or transfer by any party hereto shall be null and void). Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the L/C Issuers and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Assignments by Lenders. Any Lender may at any time assign to one or more Eligible Assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans (including for purposes of this subsection (b), participations in L/C Obligations and in Swing Line Loans) at the time owing to it); provided that

(i) except in the case of an assignment of the entire remaining amount of the assigning Lender's Commitment and the Loans at the time owing to it or in the case of an assignment to a Lender or an Affiliate of a Lender, the aggregate amount of the Commitment (which for this purpose includes Loans outstanding thereunder) or, if the Commitment is not then in effect, the principal outstanding balance of the Loans of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Administrative Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed);

(ii) any assignment of a Commitment must be approved by the Administrative Agent, all L/C Issuers and the Swing Line Lender (each such consent not to be unreasonably withheld or delayed) unless the Person that is the proposed assignee is itself a Lender (whether or not the proposed assignee would otherwise qualify as an Eligible Assignee); and

(iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$2,500, and the Eligible Assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

Subject to acceptance and recording thereof by the Administrative Agent pursuant to subsection (c) of this Section, from and after the effective date specified in each Assignment and Assumption, the Eligible Assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 3.01, 3.04, 3.05, and 11.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

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(c) Register. The Administrative Agent, acting solely for this purpose as an agent of the Borrower, shall maintain at the Administrative Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by each of the Borrower and the L/C Issuers at any reasonable time and from time to time upon reasonable prior notice. In addition, at any time that a request for a consent for a material or substantive change to the Loan Documents is pending, any Lender may request and receive from the Administrative Agent a copy of the Register.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Administrative Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a "Participant") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Commitment and/or the Loans (including such Lender's participations in L/C Obligations and/or Swing Line Loans) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (iii) the Borrower, the Administrative Agent, the Lenders and the L/C Issuers shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification described in the first proviso to Section 11.01 that affects such Participant. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 3.01, 3.04 and 3.05 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by law, each Participant also shall be

entitled to the benefits of Section 11.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.13 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 3.01, 3.04 or 3.05 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 3.01 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 3.01(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Electronic Execution of Assignments. The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures

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or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state laws based on the Uniform Electronic Transactions Act.

(h) Resignation as L/C Issuer or Swing Line Lender after Assignment. Notwithstanding anything to the contrary contained herein, if at any time Bank of America or any other L/C Issuer assigns all of its Commitment and Loans pursuant to subsection (b) above, (i) Bank of America or any such L/C Issuer may, upon 30 days' notice to the Borrower and the Lenders, resign as an L/C Issuer and/or (ii) Bank of America may, upon 30 days' notice to the Borrower, resign as Swing Line Lender. In the event of any such resignation as an L/C Issuer or Swing Line Lender, the Borrower shall be entitled to appoint from among the Lenders a successor L/C Issuer or Swing Line Lender hereunder; provided, however, that no failure by the Borrower to appoint any such successor shall affect the resignation of Bank of America or any other L/C Issuer as an L/C Issuer or the resignation of Bank of America as Swing Line Lender, as the case may be. If Bank of America or any other L/C Issuer resigns as an L/C Issuer, it shall retain all the rights, powers, privileges and duties of an L/C Issuer hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as an L/C Issuer and all L/C Obligations with respect thereto (including the right to require the Lenders to fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)). If Bank of America resigns as Swing Line Lender, it shall retain all the rights of the Swing Line Lender provided for hereunder with respect to Swing Line Loans made by it and outstanding as of the effective date of such resignation, including the right to require the Lenders to fund risk participations in outstanding Swing Line Loans pursuant to Section 2.04(c). Upon the appointment of a successor L/C Issuer and/or Swing Line Lender, (a) such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring L/C Issuer or Swing Line Lender, as the case may be, and (b) the successor L/C Issuer shall issue letters of credit in substitution for the Letters of Credit, if any, outstanding at the time of such succession or make other arrangements satisfactory to Bank of America or such other L/C Issuer, as the case may be, to effectively assume the obligations of Bank of America with respect to such Letters of Credit.

11.07 TREATMENT OF CERTAIN INFORMATION; CONFIDENTIALITY.

Each of the Administrative Agent, the Lenders and the L/C Issuers agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its Affiliates and to its and its Affiliates' respective partners, directors, officers, employees, agents, advisors and representatives (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority purporting to have jurisdiction over it (including any self-regulatory authority, such as the National Association of Insurance Commissioners), (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party hereto, (e) in connection with the exercise of any remedies hereunder or under any other Loan Document or any action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Borrower and its obligations, (g) with the consent of the Borrower or (h) to the extent such Information (x) becomes publicly available other than as a result of a breach of this Section or (y) becomes available to the Administrative Agent, any Lender, any L/C Issuer or any of their respective Affiliates on a nonconfidential basis from a source other than the Borrower.

For purposes of this Section, "Information" means all information received from the Borrower or any Subsidiary relating to the Borrower or any Subsidiary or any of their respective businesses, other than any such information that is available to the Administrative Agent, any Lender or any L/C Issuer on a nonconfidential basis prior to disclosure by the Borrower or any Subsidiary, provided that, in the case of information received from the Borrower or any Subsidiary after the Closing Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information.

Each of the Administrative Agent, the Lenders and the L/C Issuers acknowledges that (a) the Information may include material non-public information concerning the Borrower or a Subsidiary, as the case may be, (b) it has developed compliance procedures regarding the use of material non-public information and (c) it will handle such material non-public information in accordance with applicable Law, including Federal and state securities Laws.

11.08 RIGHT OF SETOFF.

Upon any amount becoming due and payable by the Borrower hereunder (whether at stated maturity, by acceleration or otherwise), each Lender, each L/C Issuer and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by applicable law, to set off and apply any and all deposits (general or special, time or demand, provisional or final, in whatever currency) at any time held and other obligations (in whatever currency) at any time owing by such Lender, such L/C Issuer or any such Affiliate to or for the credit or the account of the Borrower or any other Loan Party against any and all of the obligations of the Borrower or such Loan Party now or hereafter existing under this Agreement or any other Loan Document to such Lender or such L/C Issuer, irrespective of whether or not such Lender or such L/C Issuer shall have made any demand under this Agreement or any other Loan Document and although such obligations of the Borrower or such Loan Party may be contingent or unmatured or are owed to a branch or office of such Lender or such L/C Issuer different from the branch or office holding such deposit or obligated on such indebtedness. The rights of each Lender, each L/C Issuer and their respective Affiliates under this Section are in addition to other rights and remedies (including other rights of setoff) that such Lender, such L/C Issuer or their respective Affiliates may have. Each Lender and each L/C Issuer agrees to notify the Borrower and the Administrative Agent promptly after any such setoff and application, provided that the failure to give such notice shall not affect the validity of such setoff and application.

11.09 INTEREST RATE LIMITATION.

Notwithstanding anything to the contrary contained in any Loan Document, the interest paid or agreed to be paid under the Loan Documents shall not exceed the maximum rate of non-usurious interest permitted by applicable Law (the "Maximum Rate"). If the Administrative Agent or any Lender shall receive interest in an amount that exceeds the Maximum Rate, the excess interest shall be applied to the principal of the Loans or, if it exceeds such unpaid principal, refunded to the Borrower. In determining whether the interest contracted for, charged, or received by the Administrative Agent or a Lender exceeds the Maximum Rate, such Person may, to the extent permitted by applicable Law, (a) characterize any payment that is not principal as an expense, fee, or premium rather than interest, (b) exclude voluntary prepayments and the effects thereof, and (c) amortize, prorate, allocate, and spread in equal or unequal parts the total amount of interest throughout the contemplated term of the Obligations hereunder.

11.10 COUNTERPARTS; INTEGRATION; EFFECTIVENESS.

This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 5.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

11.11 SURVIVAL OF REPRESENTATIONS AND WARRANTIES.

All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Administrative Agent and each Lender, regardless of any investigation made by the Administrative Agent or any Lender or on their behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default at the time of any Credit Extension, and shall continue in full force and effect as long as any Loan or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

11.12 SEVERABILITY.

If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11.13 REPLACEMENT OF LENDERS.

(a) If any Lender requests compensation under Section 3.04, or (b) if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 3.01, or 3.04(a) or (b), or (c) if any Lender is subject to illegality under Section 3.02, or (d) if any Lender is a Defaulting Lender or (e) if any Lender becomes a Nonconsenting Lender (as hereinafter defined), or (f) the rating of any such Lender is dropped below BBB- or the equivalent by one of the Ratings Agencies, then, in the case of clauses (a) through (e), the Borrower, and in the case of clauses (d) and (f), the Administrative Agent, may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent or the Borrower, as applicable, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 11.06), all of its interests, rights and obligations under this Agreement and the related Loan Documents to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment), provided that:

(i) the Administrative Agent shall have received the assignment fee specified in Section 11.06(b);

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(ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 3.05) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(iii) in the case of any such assignment resulting from a claim for compensation under Section 3.04 or payments required to be made pursuant to Section 3.01, such assignment will result in a reduction in such compensation or payments thereafter;

(iv) such assignment does not conflict with applicable Laws; and

(v) in the event of a replacement of a Nonconsenting Lender or a Lender to which the Borrower becomes obligated to pay additional amounts under one of the sections described above, in order for the Borrower to be entitled to replace such a Lender, such replacement must take place no later than 180 days after (i) the date the Nonconsenting Lender shall have notified the Borrower and the Administrative Agent of its failure to agree to any requested consent, waiver or amendment or (ii) the Lender shall have demanded payment of additional amounts under one of the sections described above, as the case may be. In the event that (x) the Borrower or the Administrative Agent has requested the Lenders to consent to a departure or waiver of any provisions of the Loan Documents or to agree to any amendment thereto, (y) the consent, waiver or amendment in question requires the agreement of all Lenders in accordance with the terms of Section 11.01 and (z) the Required Lenders have agreed to such consent, waiver or amendment, then any Lender who does not agree to such consent, waiver or amendment shall be deemed a "Nonconsenting Lender."

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

11.14 GOVERNING LAW; JURISDICTION; ETC.

(a) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) SUBMISSION TO JURISDICTION. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF NEW YORK SITTING IN NEW YORK CITY AND OF THE UNITED STATES DISTRICT COURT OF THE SOUTHERN DISTRICT, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL

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AFFECT ANY RIGHT THAT THE ADMINISTRATIVE AGENT, ANY LENDER OR ANY L/C ISSUER MAY

OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST THE BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

(c) WAIVER OF VENUE. THE BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN PARAGRAPH (B) OF THIS SECTION. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

(d) SERVICE OF PROCESS. EACH PARTY HERETO IRREVOCABLY CONSENTS TO SERVICE OF PROCESS IN THE MANNER PROVIDED FOR NOTICES IN SECTION 11.02. NOTHING IN THIS AGREEMENT WILL AFFECT THE RIGHT OF ANY PARTY HERETO TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

11.15 WAIVER OF JURY TRIAL.

EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

11.16 USA PATRIOT ACT NOTICE.

Each Lender that is subject to the Act (as hereinafter defined) and the Administrative Agent (for itself and not on behalf of any Lender) hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), it is required to obtain, verify and record information that identifies the Borrower, which information includes the name and address of the Borrower and other information that will allow such Lender or the Administrative Agent, as applicable, to identify the Borrower in accordance with the Act.

11.17 RELEASE OF GUARANTORS.

If on any date subsequent to the Closing Date, (a) all of the Subordinated Debt is rated Baa3 or better by Moody's and BBB- or better by S&P (or if either such entity ceases to rate the Subordinated Debt for reasons outside of the control of the Borrower, the equivalent investment grade credit rating from any other "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by the Borrower as a replacement agency) and (b) no

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Default or Event of Default shall have occurred and be continuing before and after giving effect thereto, (i) the Guaranty of each Subsidiary hereunder will be released at the time of the release of the Guarantees under all of the documentation governing the Subordinated Debt; provided that in the event that any such Subsidiary thereafter Guarantees any of the Subordinated Debt (or if any released Guarantee under any of the documentation governing the Subordinated Debt is reinstated or renewed), then such Subsidiary will Guarantee the Obligations on the terms and conditions set forth in Article IV pursuant to the documentation and within the time period required by Section 7.09 and (ii) no Subsidiary thereafter acquired or created will be required to provide a Guaranty hereunder unless such Subsidiary Guarantees any of the Subordinated Debt.

Notwithstanding the foregoing, if the ratings assigned to any of the Subordinated Debt by any such rating agency should subsequently decline to below Baa3 or BBB-, respectively, then the Subsidiaries will Guarantee the Obligations on the terms and conditions set forth in Article IV pursuant to the documentation and within the time period required by Section 7.09.

The Guaranty of Holdings will be released at such time as Holdings is merged with and into the Borrower in accordance with the terms of Section 8.04(d).

11.18 WAIVER OF NOTICE OF TERMINATION.

Those Lenders party hereto which are also party to the Existing Credit Agreement hereby waive any prior notice requirement under the Existing Credit Agreement with respect to the termination of commitments thereunder and the making of any prepayments thereunder.

11.19 ENTIRE AGREEMENT.

THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS AMONG THE PARTIES.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be

duly executed as of the date first above written.

BORROWER: L-3 COMMUNICATIONS CORPORATION,
a Delaware corporation

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Senior Vice President, Secretary
and General Counsel

GUARANTORS: L-3 COMMUNICATIONS HOLDINGS, INC.,
a Delaware corporation

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Senior Vice President, Secretary
and General Counsel

APCOM, INC.,
a Maryland corporation
BROADCAST SPORTS INC.,
a Connecticut corporation
D.P. ASSOCIATES INC.,
a Virginia corporation
ELECTRODYNAMICS, INC.,
an Arizona corporation
HENSCHTEL INC.,
a Delaware corporation
HYGIENETICS ENVIRONMENTAL SERVICES, INC.,
a Delaware corporation
INTERSTATE ELECTRONICS CORPORATION,
a California corporation
KDI PRECISION PRODUCTS, INC.,
a Delaware corporation
L-3 COMMUNICATIONS AEROMET, INC.,
an Oregon corporation
L-3 COMMUNICATIONS AIS GP CORPORATION,
a Delaware corporation
L-3 COMMUNICATIONS AVIONICS SYSTEMS, INC.,
a Delaware corporation
L-3 COMMUNICATIONS AVISYS CORPORATION,
a Texas corporation
L-3 COMMUNICATIONS AYDIN CORPORATION,
a Delaware corporation
L-3 COMMUNICATIONS CE HOLDINGS, INC.,
a Delaware corporation

L-3 COMMUNICATIONS CINCINNATI ELECTRONICS CORPORATION,
an Ohio corporation
L-3 COMMUNICATIONS CSI, INC.,
a California corporation
L-3 COMMUNICATIONS ELECTRON TECHNOLOGIES, INC.,
a Delaware corporation
L-3 COMMUNICATIONS ESSCO, INC.,
a Delaware corporation
L-3 COMMUNICATIONS GOVERNMENT SERVICES, INC.,
a Virginia corporation
L-3 COMMUNICATIONS ILEX SYSTEMS, INC.,
a Delaware corporation
L-3 COMMUNICATIONS INVESTMENTS INC.,
a Delaware corporation
L-3 COMMUNICATIONS KLEIN ASSOCIATES, INC.,
a Delaware corporation
L-3 COMMUNICATIONS MAS (US) CORPORATION,
a Delaware corporation
L-3 COMMUNICATIONS SECURITY AND DETECTION SYSTEMS, INC.,
a Delaware corporation
L-3 COMMUNICATIONS STORM CONTROL SYSTEMS, INC.,
a Virginia corporation
L-3 COMMUNICATIONS WESTWOOD CORPORATION,
a Nevada corporation
MCTI ACQUISITION CORPORATION,
a Maryland corporation
MICRODYNE COMMUNICATIONS TECHNOLOGIES INCORPORATED,
a Maryland corporation
MICRODYNE CORPORATION,
a Maryland corporation
MICRODYNE OUTSOURCING INCORPORATED,
a Maryland corporation
MPRI, INC.,
a Delaware corporation
PAC ORD, INC.,
a Delaware corporation
POWER PARAGON, INC.,
a Delaware corporation
SHIP ANALYTICS, INC.,
a Connecticut corporation
SHIP ANALYTICS INTERNATIONAL, INC.,

a Delaware corporation
SHIP ANALYTICS USA, INC.,
a Connecticut corporation

SPD ELECTRICAL SYSTEMS, INC.,
a Delaware corporation
SPD SWITCHGEAR INC.,
a Delaware corporation
SYCOLEMAN CORPORATION,
a Florida corporation
TROLL TECHNOLOGY CORPORATION,
a California corporation
WESCAM SONOMA INC.,
a California corporation
WESCAM AIR OPS INC.,
a Delaware corporation
WESCAM INCORPORATED,
a Florida corporation
WESCAM HOLDINGS (US) INC.,
a Delaware corporation
WOLF COACH INC.,
a Massachusetts corporation

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

L-3 COMMUNICATIONS INTEGRATED SYSTEMS L.P.,
a Delaware limited partnership

By: L-3 COMMUNICATIONS AIS GP
CORPORATION, as General Partner

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

L-3 COMMUNICATIONS VERTEX AEROSPACE LLC,
a Delaware limited liability company

By: L-3 COMMUNICATIONS INTEGRATED SYSTEMS, L.P.

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

L-3 COMMUNICATIONS FLIGHT CAPITAL LLC,
L-3 COMMUNICATIONS FLIGHT INTERNATIONAL AVIATION LLC,
L-3 COMMUNICATIONS VECTOR INTERNATIONAL AVIATION LLC,
each a Delaware limited liability company

By: L-3 COMMUNICATIONS VERTEX AEROSPACE
LLC, as Sole Member

By: L-3 COMMUNICATIONS INTEGRATED SYSTEMS L.P., as Sole
Member

By: L-3 COMMUNICATIONS AIS GP CORPORATION, as
General Partner

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

WESCAM AIR OPS LLC,
a Delaware limited liability company

By: WESCAM INCORPORATION, as Sole Member

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

WESCAM LLC,
a Delaware limited liability company

By: L-3 COMMUNICATIONS CORPORATION, as Sole Member

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

L-3 COMMUNICATIONS MAPPS INVESTMENTS, LLC,
a Delaware limited liability company

By: L-3 COMMUNICATIONS CORPORATION, as Sole Member

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Vice President and Secretary

ADMINISTRATIVE AGENT:

BANK OF AMERICA, N.A.,
as Administrative Agent

By: /s/ Kenneth J. Beck

Name: Kenneth J. Beck

Title: Senior Vice President

LENDERS:

BANK OF AMERICA, N.A., as a Lender,
an L/C Issuer and Swing Line Lender

By: /s/ Kenneth J. Beck

Name: Kenneth J. Beck

Title: Senior Vice President

MORGAN STANLEY BANK,
as a Lender

By: /s/ Daniel Twenge

Name: Daniel Twenge

Title: Morgan Stanley Bank

SOCIETE GENERALE,
as a Lender

By: /s/ Eric E. O. Siebert Jr.

Name: Eric E. O. Siebert Jr.

Title: Managing Director

THE BANK OF NOVA SCOTIA,
as a Lender

By: /s/ Todd S. Meller

Name: Todd S. Meller

Title: Managing Director

BANK OF TOKYO-MITSUBISHI TRUST
COMPANY, as a Lender

By: /s/ Charles Stewart

Name: Charles Stewart

Title: Vice President

MIZUHO CORPORATE BANK, LTD,
as a Lender

By: /s/ Bertram H. Tang

Name: Bertram H. Tang

Title: Senior Vice President & Team Leader

THE BANK OF NEW YORK,
as a Lender

By: /s/ Kenneth P. Sneider, Jr.

Name: Kenneth P. Sneider, Jr.

Title: Vice President

SUMITOMO MITSUI BANKING CORPORATION,
as a Lender

By: /s/ Al Galluzzo

Name: Al Galluzzo

Title: Senior Vice President

CREDIT INDUSTRIEL ET COMMERCIAL,
as a Lender

By: /s/ Brian O'Leary /s/ Dora DeBlasi Hyduk

Name: Brian O'Leary Dora DeBlasi Hyduk

Title: Vice President VP & Sr. Credit Officer

LEHMAN COMMERCIAL PAPER INC.,
as a Lender

By: /s/ V. Paul Arzouian

Name: V. Paul Arzouian

Title: Authorized Signatory

CREDIT SUISSE FIRST BOSTON, ACTING
THROUGH ITS CAYMAN ISLANDS BRANCH,
as a Lender

By: /s/ Phillip Ho

Name: Phillip Ho

Title: Director

By: /s/ Ian Nalitt

Name: Ian Nalitt

Title: Vice President

SUNTRUST BANK,
as a Lender

By: /s/ Heidi M. Khambatta

Name: Heidi M. Khambatta

Title: Director

UFJ BANK LIMITED, NEW YORK BRANCH,
as a Lender

By: /s/ John T. Feeney

Name: John T. Feeney

Title: Vice President

JPMORGAN CHASE BANK, N.A.,
as a Lender

By: /s/ Richard C. Smith

Name: Richard C. Smith

Title: Vice President

HSBC BANK USA, N.A.,
as a Lender

By: /s/ Bruce Wicks

Name: Bruce Wicks

Title: First Vice President

AUSTRALIA AND NEW ZEALAND BANKING
GROUP LIMITED, as a Lender

By: /s/ John W. Wade

Name: John W. Wade

Title: Director

COMERICA BANK,
as a Lender

By: /s/ Sarah R. West

Name: Sarah R. West

Title: Account Officer

KEYBANK NATIONAL ASSOCIATION,
as a Lender

By: /s/ Francis W. Lutz, Jr.

Name: Francis W. Lutz, Jr.

Title: Vice President

WACHOVIA BANK, NATIONAL ASSOCIATION,
as a Lender

By: /s/ Robert G. McGill Jr.

Name: Robert G. McGill Jr.

Title: Director

FORTIS CAYMAN ISLANDS BRANCH,
as a Lender

By: /s/ Roy O. Anderson

Name: Roy O. Anderson

Title: Executive Vice President and General Counsel

By: /s/ Douglas V. Riahi

Name: Douglas V. Riahi

Title: Senior Vice President

BARCLAYS BANK PLC,
as a Lender

By: /s/ Nicholas Bell

Name: Nicholas Bell

Title: Director

CALYON NEW YORK BRANCH,
as a Lender

By: /s/ Scott R. Chappelka

Name: Scott R. Chappelka

Title: Director

By: /s/ Philip Schubert

Name: Philip Schubert

Title: Director

WESTLB AG, NEW YORK BRANCH,
as a Lender

By: /s/ Rolf Schmitz

Name: Rolf Schmitz

Title: Director

By: /s/ Walter T. Duffy III

Name: Walter T. Duffy III

Title: Director

THE GOVERNOR AND COMPANY OF THE
BANK OF IRELAND,
as a Lender

By: /s/ Geraldine Hannon /s/Mary Connolly

Name: Geraldine Hannon Mary Connolly

Title: Authorised Signatories

EXHIBIT A

FORM OF COMMITTED LOAN NOTICE

Date: _____, _____

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of March [___], 2005 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined), among L-3 Communications Corporation, a Delaware corporation (the "Borrower"), L-3 Communications Holdings, Inc. a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto as guarantors (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, an L/C Issuer and Swing Line Lender.

The undersigned hereby requests (select one):

[] A Borrowing of [] A conversion or
Committed Loans continuation of Loans

1. On _____ (a Business Day).
2. In the amount of \$ _____.
3. Comprised of _____.
[Type of Committed Loan requested]
4. For Eurodollar Rate Loans: with an Interest Period of ____ months.

[The Borrower hereby represents and warrants that (a) the Committed Borrowing, if any, requested herein complies with the provisos to the first sentence of Section 2.01 of the Credit Agreement and (b) each of the conditions set forth in Section 5.02 of the Credit Agreement have been satisfied on and as of the date of the requested borrowing.]1

L-3 Communications Corporation,
a Delaware corporation

By: _____
Name: _____
Title: _____

- -----
(1) To be provided for each Request for Credit Extension other than a request for conversion or continuation only.

EXHIBIT B

FORM OF
SWING LINE LOAN NOTICE

Date: _____, _____

To: Bank of America, N.A., as Swing Line Lender
 Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of March [___], 2005 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined), among L-3 Communications Corporation, a Delaware corporation (the "Borrower"), L-3 Communications Holdings, Inc. a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto as guarantors (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, an L/C Issuer and Swing Line Lender.

The undersigned hereby requests a Swing Line Loan:

1. On _____ (a Business Day).

2. In the amount of \$.

The Borrower hereby represents and warrants that (a) the Swing Line Borrowing requested herein complies with the requirements of the provisos to the first sentence of Section 2.04(a) of the Credit Agreement and (b) each of the conditions set forth in Section 5.02 of the Credit Agreement have been satisfied on and as of the date of the requested Swing Line Borrowing.

L-3 Communications Corporation,
a Delaware corporation

By:

Name:

Title:

EXHIBIT C

FORM OF
PLEDGE AGREEMENT

EXHIBIT D

FORM OF
REVOLVING NOTE

March [___], 2005

FOR VALUE RECEIVED, the undersigned (the "Borrower") hereby promises to pay to _____ or registered assigns (the "Lender"), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Loan from time to time made by the Lender to the Borrower under that certain Credit Agreement, dated as of March [___], 2005 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined), among the Borrower, L-3 Communications Holdings, Inc. a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, an L/C Issuer and Swing Line Lender. Capitalized terms used but not otherwise defined herein have the meanings provided in the Credit Agreement.

The Borrower promises to pay interest on the unpaid principal amount of each Committed Loan from the date of such Committed Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Credit Agreement. All payments of principal and interest shall be made to the Administrative Agent for the account of the Lender in Dollars in immediately available funds at the Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Note is one of the Revolving Notes referred to in the Credit Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Credit Agreement. Committed Loans made by the Lender shall be evidenced by one or more loan accounts or records maintained by the Lender in the ordinary course of business. The Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

L-3 COMMUNICATIONS CORPORATION,
a Delaware corporation

By:

Name:

Title:

EXHIBIT E

FORM OF
SWING LINE NOTE

March [___], 2005

FOR VALUE RECEIVED, the undersigned (the "Borrower") hereby promises to pay to BANK OF AMERICA, N.A. or registered assigns (the "Swing Line Lender"), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Swing Line Loan from time to time made by the Swing Line Lender to the Borrower under that certain Credit Agreement, dated as of March [___], 2005 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined), among the Borrower, L-3 Communications Holdings, Inc. a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, an L/C Issuer and Swing Line Lender. Capitalized terms used but not otherwise defined herein have the meanings provided in the Credit Agreement.

The Borrower promises to pay interest on the unpaid principal amount of each Swing Line Loan from the date of such Swing Line Loan until such principal amount is paid in full, at such interest rates and at such times as provided in the Credit Agreement. All payments of principal and interest shall be made to the Administrative Agent for the account of the Swing Line Lender in Dollars in immediately available funds at the Administrative Agent's Office. If any amount is not paid in full when due hereunder, such unpaid amount shall bear interest, to be paid upon demand, from the due date thereof until the date of actual payment (and before as well as after judgment) computed at the per annum rate set forth in the Credit Agreement.

This Note is one of the Swing Line Notes referred to in the Credit Agreement, is entitled to the benefits thereof and may be prepaid in whole or in part subject to the terms and conditions provided therein. Upon the occurrence and continuation of one or more of the Events of Default specified in the Credit Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable all as provided in the Credit Agreement. Swing Line Loans made by the Swing Line Lender shall be evidenced by one or more loan accounts or records maintained by the Swing Line Lender in the ordinary course of business. The Swing Line Lender may also attach schedules to this Note and endorse thereon the date, amount and maturity of its Swing Line Loans and payments with respect thereto.

The Borrower, for itself, its successors and assigns, hereby waives diligence, presentment, protest and demand and notice of protest, demand, dishonor and non-payment of this Note.

THIS NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

L-3 COMMUNICATIONS CORPORATION,
a Delaware corporation

By: _____

Name: _____

Title: _____

EXHIBIT F

FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____,

To: Bank of America, N.A., as Administrative Agent

Ladies and Gentlemen:

Reference is made to that certain Credit Agreement, dated as of March [___], 2005 (as amended, restated, extended, supplemented or otherwise modified in writing from time to time, the "Credit Agreement;" the terms defined therein being used herein as therein defined), among L-3 Communications Corporation, a Delaware corporation (the "Borrower"), L-3 Communications Holdings, Inc. a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto as guarantors (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, an L/C Issuer and Swing Line Lender.

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of the Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to the Administrative Agent on the behalf of the Borrower, and that to the best of my knowledge and belief:

[Use following paragraph 1 for fiscal year-end financial statements]

1. Attached hereto as Schedule 1 are the year-end audited financial statements required by Section 7.01 of the Credit Agreement for the fiscal year of the Borrower ended as of the above date, together with the certification of an independent certified public accountant required by such section. Such financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period.

[Use following paragraph 1 for fiscal quarter-end financial statements]

1. Attached hereto as Schedule 1 are the unaudited financial statements required by Section 7.01 of the Credit Agreement for the fiscal quarter of the Borrower ended as of the above date. Such financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Borrower and its Subsidiaries in accordance with GAAP as at such date and for such period, subject only to normal year-end audit adjustments and the absence of footnotes.

2. During the fiscal [quarter] [year] ended as of the date above:

(i) no Subsidiary has been formed or acquired which has not complied with the requirements set forth in Section 7.09 of the Credit Agreement; and

(ii) I have obtained no knowledge of any Default or Event of Default.

3. The financial covenant calculations set forth on Schedule 2 attached hereto are fairly stated in all material respects.

4. The calculation of the amount of Restricted Payments permitted to be made by Section 8.06(f), set forth on Schedule 3 attached hereto, is fairly stated in all material respects.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20__.

L-3 COMMUNICATIONS CORPORATION,
a Delaware corporation

By:

Name:

Title:

SCHEDULE 2

SCHEDULE 3

EXHIBIT G

ASSIGNMENT AND ASSUMPTION

This Assignment and Assumption (this "Assignment and Assumption") is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the "Assignor") and [Insert name of Assignee] (the "Assignee"). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (the "Credit Agreement"), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date (i) all of the Assignor's rights and obligations as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the facility identified below (including, without limitation, the Letters of Credit and the Swing Line Loans included in such facility) and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor.

1. Assignor: _____

2. Assignee: _____ [and is an Affiliate of
[identify Lender]]
3. Borrower: L-3 Communications Corporation, a Delaware corporation
4. Administrative Agent: Bank of America, N.A., as the administrative agent under the Credit Agreement
5. Credit Agreement: Credit Agreement, dated as of March [__], 2005 among L-3 Communications Corporation, a Delaware corporation (the "Borrower"), L-3 Communications Holdings, Inc. a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto as guarantors (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, an L/C Issuer, and Swing Line Lender
6. Assigned Interest:

Facility Assigned	Aggregate Amount of Commitment for all Lenders	Amount of Commitment Assigned	Percentage Assigned of Commitments	CUSIP Number
	\$	\$	%	
	\$	\$	%	
	\$	\$	%	

Effective Date: _____, 20__ [TO BE INSERTED BY ADMINISTRATIVE AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By: _____
Title:

ASSIGNEE
[NAME OF ASSIGNEE]

By: _____
Title:

[Consented to and](2) Accepted:

BANK OF AMERICA, N.A., as
Administrative Agent

By: _____
Title:

[Consented to:](3)

BANK OF AMERICA, N.A., as
Swing Line Lender and an L/C Issuer

By: _____
Title:

[Consented to:](2)

L-3 COMMUNICATIONS CORPORATION,
a Delaware corporation

By: _____
Title:

(2) To be added only if the consent of the Administrative Agent is required by the terms of the Credit Agreement.

- (3) To be added only if the consent of the Borrower and/or other parties (e.g. Swing Line Lender, L/C Issuer) is required by the terms of the Credit Agreement.

ANNEX 1 TO ASSIGNMENT AND ASSUMPTION

STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION

1. Representations and Warranties.

1.1. Assignor. The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document.

1.2. Assignee. The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all requirements of an Eligible Assignee under the Credit Agreement (subject to receipt of such consents as may be required under the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 7.01 thereof, as applicable, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent or any other Lender, and (v) if it is a Foreign Lender, attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Administrative Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, the Administrative Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the law of the State of New York.

EXHIBIT H

FORM OF JOINDER AGREEMENT

THIS JOINDER AGREEMENT (the "Agreement") dated as of _____, 200__ is by and between _____, a _____ (the "New Subsidiary"), and Bank of America, N.A., in its capacity as Administrative Agent under that certain Credit Agreement (as amended, modified, supplemented and extended from time to time, the "Credit Agreement") dated as of March [___], 2005 among L-3 Communications Corporation, a Delaware corporation (the "Borrower"), L-3 Communications Holdings, Inc., a Delaware corporation ("Holdings") and certain subsidiaries of the Borrower from time to time party thereto (together with Holdings, the "Guarantors"), the Lenders from time to time party thereto and Bank of America, N.A., as Administrative Agent. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Credit Agreement.

The Loan Parties are required by Section 7.09 of the Credit Agreement to cause the New Subsidiary to become a "Guarantor" thereunder. Accordingly, the New Subsidiary hereby agrees as follows with the Administrative Agent, for the benefit of the Lenders:

1. The New Subsidiary hereby acknowledges, agrees and confirms that, by its execution of this Agreement, the New Subsidiary will be deemed to be a party to the Credit Agreement and a "Guarantor" for all purposes of the Credit

Agreement, and shall have all of the obligations of a Guarantor thereunder as if it had executed the Credit Agreement. The New Subsidiary hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions applicable to the Guarantors contained in the Credit Agreement. Without limiting the generality of the foregoing terms of this paragraph 1, the New Subsidiary hereby jointly and severally together with the other Guarantors, guarantees to each Lender and the Administrative Agent, as provided in Article IV of the Credit Agreement, the prompt payment and performance of the Obligations in full when due (whether at stated maturity, as a mandatory prepayment, by acceleration or otherwise) strictly in accordance with the terms thereof.

2. [The New Subsidiary hereby acknowledges, agrees and confirms that, by its execution of this Agreement the New Subsidiary will be deemed to be a party to the Pledge Agreement and a "Pledgor" for all purposes of the Pledge Agreement, and shall have all the obligations of a Pledgor thereunder as if it had executed the Pledge Agreement. The New Subsidiary hereby ratifies, as of the date hereof, and agrees to be bound by, all of the terms, provisions and conditions contained in the Pledge Agreement. Without limiting generality of the foregoing terms of this paragraph 3, the New Subsidiary hereby agrees that it shall grant, pledge and assign to the Administrative Agent, for the benefit of the Lenders, a continuing security interest in, and a right of set off against, any and all right, title and interest of the New Subsidiary in and to the Equity Interests identified on Schedule 1 hereto and all other Pledged Collateral (as defined in the Pledge Agreement) of the New Subsidiary to secure the prompt payment and performance in full when due, whether by lapse of time, acceleration, mandatory prepayment or otherwise, of the Secured Obligations (as defined in the Pledge Agreement).] [Provision only included after the Collateral Effective Date]

3. The Subsidiary hereby represents and warrants to the Administrative Agent that:

(a) The New Subsidiary's exact legal name and state of formation are as set forth on the signature pages hereto.

(b) Schedule 2 hereto includes all Subsidiaries of the New Subsidiary, including number of shares of outstanding Equity Interests, the certificate number(s) of the certificates evidencing such Equity Interests and the percentage of such Equity Interests owned by the New Subsidiary.

4. The address of the New Subsidiary for purposes of all notices and other communications is the address designated for all Loan Parties on Schedule 11.02 to the Credit Agreement or such other address as the New Subsidiary may from time to time notify the Administrative Agent in writing.

5. The New Subsidiary hereby waives acceptance by the Administrative Agent and the Lenders of the guaranty by the New Subsidiary under Article IV of the Credit Agreement upon the execution of this Agreement by the New Subsidiary.

6. This Agreement may be executed in multiple counterparts, each of which shall constitute an original but all of which when taken together shall constitute one contract.

7. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

IN WITNESS WHEREOF, the New Subsidiary has caused this Joinder Agreement to be duly executed by its authorized officer, and the Administrative Agent, for the benefit of the Lenders, has caused the same to be accepted by its authorized officer, as of the day and year first above written.

[NEW SUBSIDIARY]

By: _____
Name:
Title:

Acknowledged and accepted:

BANK OF AMERICA, N.A., as Administrative Agent

By: _____
Name:
Title:

Schedule 1

Pledged Shares

[To be provided after the Collateral Effective Date]

Schedule 2

Subsidiaries

SUPPLEMENTAL INDENTURE TO BE DELIVERED
BY GUARANTEEING SUBSIDIARIES

Supplemental Indenture (this "Supplemental Indenture"), dated as of March 10, 2005, among L-3 Communications Corporation (or its permitted successor), a Delaware corporation (the "Company"), each a direct or indirect subsidiary of the Company signatory hereto (each, a "Guaranteeing Subsidiary", and collectively, the "Guaranteeing Subsidiaries"), and The Bank of New York, as trustee under the indenture referred to below (the "Trustee").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of May 21, 2003 providing for the issuance of an unlimited amount of 6 1/8% Senior Subordinated Notes due 2013 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Company's Obligations (as defined in the Indenture) under the Notes and the Indenture on the terms and conditions set forth herein (the "Subsidiary Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AGREEMENT TO GUARANTEE. Each Guaranteeing Subsidiary hereby agrees as follows:

- (a) Such Guaranteeing Subsidiary, jointly and severally with all other current and future guarantors of the Notes (collectively, the "Guarantors" and each, a "Guarantor"), unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, regardless of the validity and enforceability of the Indenture, the Notes or the Obligations of the Company under the Indenture or the Notes, that:
 - (i) the principal of, premium, interest and Additional Amounts, if any, on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of, premium, interest and Additional Amounts, if any, on the

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Notes, to the extent lawful, and all other Obligations of the Company to the Holders or the Trustee thereunder or under the Indenture will be promptly paid in full, all in accordance with the terms thereof; and

- (ii) in case of any extension of time for payment or renewal of any Notes or any of such other Obligations, that the same will be promptly paid in full when due in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.
- (b) Notwithstanding the foregoing, in the event that this Subsidiary Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of such Guaranteeing Subsidiary under this Supplemental Indenture and its Subsidiary Guarantee shall be reduced to the maximum amount permissible under such fraudulent conveyance or similar law.

3. EXECUTION AND DELIVERY OF SUBSIDIARY GUARANTEES.

- (a) To evidence its Subsidiary Guarantee set forth in this Supplemental Indenture, such Guaranteeing Subsidiary hereby agrees that a notation of such Subsidiary Guarantee substantially in the form of Exhibit F to the Indenture shall be endorsed by an officer of such Guaranteeing Subsidiary on each Note authenticated and delivered by the Trustee after the date hereof.

- (b) Notwithstanding the foregoing, such Guaranteeing Subsidiary hereby agrees that its Subsidiary Guarantee set forth herein shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Subsidiary Guarantee.
- (c) If an Officer whose signature is on this Supplemental Indenture or on the Subsidiary Guarantee no longer holds that office at the time the Trustee authenticates the Note on which a Subsidiary Guarantee is endorsed, the Subsidiary Guarantee shall be valid nevertheless.
- (d) The delivery of any Note by the Trustee, after the authentication thereof under the Indenture, shall constitute due delivery of the Subsidiary Guarantee set forth in this Supplemental Indenture on behalf of each Guaranteeing Subsidiary.
- (e) Each Guaranteeing Subsidiary hereby agrees that its Obligations hereunder shall be unconditional, regardless of the validity, regularity or enforceability of the Notes or the Indenture, the

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absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

- (f) Each Guaranteeing Subsidiary hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever and covenants that its Subsidiary Guarantee made pursuant to this Supplemental Indenture will not be discharged except by complete performance of the Obligations contained in the Notes and the Indenture.
- (g) If any Holder or the Trustee is required by any court or otherwise to return to the Company or any Guaranteeing Subsidiary, or any custodian, Trustee, liquidator or other similar official acting in relation to either the Company or such Guaranteeing Subsidiary, any amount paid by either to the Trustee or such Holder, the Subsidiary Guarantee made pursuant to this Supplemental Indenture, to the extent theretofore discharged, shall be reinstated in full force and effect.
- (h) Each Guaranteeing Subsidiary agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any Obligations guaranteed hereby until payment in full of all Obligations guaranteed hereby. Each Guaranteeing Subsidiary further agrees that, as between such Guaranteeing Subsidiary, on the one hand, and the Holders and the Trustee, on the other hand:

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- (i) the maturity of the Obligations guaranteed hereby may be accelerated as provided in Article 6 of the Indenture for the purposes of the Subsidiary Guarantee made pursuant to this Supplemental Indenture, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby; and
- (ii) in the event of any declaration of acceleration of such Obligations as provided in Article 6 of the Indenture, such Obligations (whether or not due and payable) shall forthwith become due and payable by such Guaranteeing Subsidiary for the purpose of the Subsidiary Guarantee made pursuant to this Supplemental Indenture.
- (i) Each Guaranteeing Subsidiary shall have the right to seek contribution from any other non-paying Guaranteeing Subsidiary so long as the exercise of such right does not impair the rights of the Holders or the Trustee under the Subsidiary Guarantee made pursuant to this Supplemental Indenture.

4. GUARANTEEING SUBSIDIARY MAY CONSOLIDATE, ETC. ON CERTAIN TERMS.

- (a) Except as set forth in Articles 4 and 5 of the Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into the Company or any other Guarantor or shall prevent any transfer, sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to the Company or any other Guarantor.
- (b) Except as set forth in Article 4 and 5 of the Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into a corporation or corporations other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary), or successive consolidations or mergers in which a Guaranteeing Subsidiary or its successor or successors shall be a party or parties, or shall prevent any sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to a corporation other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary) authorized to acquire and operate the same; provided, however, that each Guaranteeing Subsidiary hereby covenants and agrees that (i) subject to the Indenture, upon

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any such consolidation, merger, sale or conveyance, the due and punctual performance and observance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiaries, shall be expressly assumed (in the event that such Guaranteeing Subsidiary is not the surviving corporation in the merger), by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee, by the corporation formed by such consolidation, or into which such Guaranteeing Subsidiary shall have been merged, or by the corporation which shall have acquired such property and (ii) immediately after giving effect to such consolidation, merger, sale or conveyance no Default or Event of Default exists.

- (c) In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Subsidiary Guarantee made pursuant to this Supplemental Indenture and the due and punctual performance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiary, such successor corporation shall succeed to and be substituted for such Guaranteeing Subsidiary with the same effect as if it had been named herein as the Guaranteeing Subsidiary. Such successor corporation thereupon may cause to be signed any or all of the Subsidiary Guarantees to be endorsed upon the Notes issuable under the Indenture which theretofore shall not have been signed by the Company and delivered to the Trustee. All the Subsidiary Guarantees so issued shall in all respects have the same legal rank and benefit under the Indenture and this Supplemental Indenture as the Subsidiary Guarantees theretofore and thereafter issued in accordance with the terms of the Indenture and this Supplemental Indenture as though all of such Subsidiary Guarantees had been issued at the date of the execution hereof.

5. RELEASES.

- (a) Concurrently with any sale of assets (including, if applicable, all of the Capital Stock of a Guaranteeing Subsidiary), all Liens, if any, in favor of the Trustee in the assets sold thereby shall be released; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. If the assets sold in such sale or other disposition include all or substantially all of the assets of a Guaranteeing Subsidiary or all of the Capital Stock of a Guaranteeing Subsidiary, then the Guaranteeing Subsidiary (in the event of a sale or other disposition of all of the Capital Stock of such Guaranteeing Subsidiary) or the Person acquiring the property (in the

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event of a sale or other disposition of all or substantially all of the assets of such Guaranteeing Subsidiary) shall be released from and relieved of its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate to the effect that such sale or other disposition was made by the Company or the Guaranteeing Subsidiary, as the case may be, in accordance with the provisions of the Indenture and this Supplemental Indenture, including without limitation, Section 4.10 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of the Guaranteeing Subsidiary from its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto. If the Guaranteeing Subsidiary is not released from its obligations under its Subsidiary Guarantee, it shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of such Guaranteeing Subsidiary under the Indenture as provided in this Supplemental Indenture.

- (b) Upon the designation of a Guaranteeing Subsidiary as an Unrestricted Subsidiary in accordance with the terms of the Indenture, such Guaranteeing Subsidiary shall be released and relieved of its Obligations under its Subsidiary Guarantee and this Supplemental Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such designation of such Guaranteeing Subsidiary as an Unrestricted Subsidiary was made by the Company in accordance with the provisions of the Indenture, including without limitation Section 4.07 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of such Guaranteeing Subsidiary from its Obligations under its Subsidiary Guarantee. Any Guaranteeing Subsidiary not released from its Obligations under its Subsidiary Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other Obligations of any Guaranteeing Subsidiary under the Indenture as provided herein.
- (c) Each Guaranteeing Subsidiary shall be released and relieved of its obligations under this Supplemental Indenture in accordance with, and subject to, Section 4.18 of the Indenture.

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6. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator, stockholder or agent of any Guaranteeing Subsidiary, as such, shall have any liability for any Obligations of the Company or any Guaranteeing Subsidiary under the Notes, any Subsidiary Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such Obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

7. SUBORDINATION OF SUBSIDIARY GUARANTEES; ANTI-LAYERING. No Guaranteeing Subsidiary shall incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt of a Guaranteeing Subsidiary and senior in any respect in right of payment to any of the Subsidiary Guarantees. Notwithstanding the foregoing sentence, the Subsidiary Guarantee of each Guaranteeing Subsidiary shall be subordinated to the prior payment in full of all Senior Debt of that Guaranteeing Subsidiary (in the same manner and to the same extent that the Notes are subordinated to Senior Debt), which shall include all guarantees of Senior Debt.

8. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

9. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

10. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

11. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

Dated: March 10, 2005

L-3 COMMUNICATIONS CORPORATION

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Senior Vice President, Secretary
and General Counsel

Dated: March 10, 2005

APCOM, INC., a Maryland corporation
BROADCAST SPORTS INC., a Delaware corporation
D.P. ASSOCIATES INC., a Virginia corporation
ELECTRODYNAMICS, INC., an Arizona corporation
HENSCHEL INC., a Delaware corporation
HYGIENETICS ENVIRONMENTAL SERVICES, INC., a
Delaware corporation
INTERSTATE ELECTRONICS CORPORATION, a California
corporation
KDI PRECISION PRODUCTS, INC., a Delaware
corporation
L-3 COMMUNICATIONS AEROMET, INC., an Oregon
corporation
L-3 COMMUNICATIONS VERTEX AEROSPACE LLC, a
Delaware limited liability company L-3
COMMUNICATIONS AIS GP CORPORATION, a Delaware
corporation L-3 COMMUNICATIONS
AVIONICS SYSTEMS, INC., a Delaware corporation L-3
COMMUNICATIONS AVYSIS
CORPORATION, a Texas corporation
L-3 COMMUNICATIONS AYDIN CORPORATION, a Delaware
corporation
L-3 COMMUNICATIONS CE HOLDINGS, INC., a Delaware
corporation
L-3 COMMUNICATIONS CINCINNATI ELECTRONICS
CORPORATION, an Ohio corporation
L-3 COMMUNICATIONS CSI, INC., a California
corporation
L-3 COMMUNICATIONS ELECTRON TECHNOLOGIES, INC., a
Delaware corporation
L-3 COMMUNICATIONS ESSCO, INC., a Delaware
corporation
L-3 COMMUNICATIONS FLIGHT INTERNATIONAL AVIATION
LLC, a Delaware limited liability company
L-3 COMMUNICATIONS FLIGHT CAPITAL LLC, a Delaware
limited liability company
L-3 COMMUNICATIONS GOVERNMENT SERVICES, INC., a
Virginia corporation
L-3 COMMUNICATIONS ILEX SYSTEMS, INC., a Delaware
corporation
L-3 COMMUNICATIONS INTEGRATED SYSTEMS L.P., a
Delaware limited partnership
L-3 COMMUNICATIONS INVESTMENTS INC., a Delaware
corporation
L-3 COMMUNICATIONS KLEIN ASSOCIATES, INC., a
Delaware corporation
L-3 COMMUNICATIONS MAPPS INVESTMENTS, LLC, a
Delaware limited liability company

L-3 COMMUNICATIONS MAS (US) CORPORATION, a
Delaware corporation
L-3 COMMUNICATIONS SECURITY AND DETECTION SYSTEMS,
INC., a Delaware corporation
L-3 COMMUNICATIONS STORM CONTROL SYSTEMS, INC., a
California corporation
L-3 COMMUNICATIONS VECTOR INTERNATIONAL AVIATION
LLC, a Delaware limited liability company
L-3 COMMUNICATIONS WESTWOOD CORPORATION, a Nevada
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MCTI ACQUISITION CORPORATION, a Maryland
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MICRODYNE COMMUNICATIONS TECHNOLOGIES
INCORPORATED, a Maryland corporation
MICRODYNE CORPORATION, a Maryland corporation
MICRODYNE OUTSOURCING INCORPORATED, a Maryland
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MPRI, INC., a Delaware corporation
PAC ORD INC., a Delaware corporation
POWER PARAGON, INC., a Delaware corporation
SHIP ANALYTICS, INC., a Connecticut corporation
SHIP ANALYTICS INTERNATIONAL, INC., a Delaware
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SHIP ANALYTICS USA, INC., a Connecticut
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SPD ELECTRICAL SYSTEMS, INC., a Delaware
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SPD SWITCHGEAR INC., a Delaware corporation
SYCOLEMAN CORPORATION, a Florida corporation
TROLL TECHNOLOGY CORPORATION, a California
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WESCAM AIR OPS LLC, a Delaware limited liability
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WESCAM HOLDINGS (US) INC., a Delaware corporation
WESCAM INCORPORATED, a Florida corporation
WESCAM LLC, a Delaware limited liability company
WESCAM SONOMA INC., a California corporation
WOLF COACH, INC., a Massachusetts corporation
As Guaranteeing Subsidiaries

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Vice President, Secretary

Dated: March 10, 2005

THE BANK OF NEW YORK,
as Trustee

By: /s/ Kisha A. Holder

Name: Kisha A. Holder

Title: Assistant Vice President

SUPPLEMENTAL INDENTURE TO BE DELIVERED
BY GUARANTEEING SUBSIDIARIES

Supplemental Indenture (this "Supplemental Indenture"), dated as of March 10, 2005, among L-3 Communications Corporation (or its permitted successor), a Delaware corporation (the "Company"), each subsidiary of the Company signatory hereto (each, a "Guaranteeing Subsidiary", and collectively, the "Guaranteeing Subsidiaries"), and The Bank of New York, as trustee under the indenture referred to below (the "Trustee").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of June 28, 2002 providing for the issuance of an aggregate principal amount of up to \$750,000,000 of 7 5/8% Senior Subordinated Notes due 2012 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Company's obligations under the Notes and the Indenture on the terms and conditions set forth herein (the "Subsidiary Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AGREEMENT TO GUARANTEE. Each Guaranteeing Subsidiary hereby agrees as follows:

- (a) Such Guaranteeing Subsidiary, jointly and severally with all other current and future guarantors of the Notes (collectively, the "Guarantors" and each, a "Guarantor"), unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, regardless of the validity and enforceability of the Indenture, the Notes or the Obligations of the Company under the Indenture or the Notes, that:

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- (i) the principal of, premium, interest and Additional Amounts, if any, on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of, premium, interest and Additional Amounts, if any, on the Notes, to the extent lawful, and all other Obligations of the Company to the Holders or the Trustee thereunder or under the Indenture will be promptly paid in full, all in accordance with the terms thereof; and

- (ii) in case of any extension of time for payment or renewal of any Notes or any of such other Obligations, that the same will be promptly paid in full when due in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.

- (b) Notwithstanding the foregoing, in the event that this Subsidiary Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of such Guaranteeing Subsidiary under this Supplemental Indenture and its Subsidiary Guarantee shall be reduced to the maximum amount permissible under such fraudulent conveyance or similar law.

3. EXECUTION AND DELIVERY OF SUBSIDIARY GUARANTEES.

- (a) To evidence its Subsidiary Guarantee set forth in this Supplemental Indenture, such Guaranteeing Subsidiary hereby agrees that a notation of such Subsidiary Guarantee substantially in the form of Exhibit F to the Indenture shall be endorsed by an officer of such Guaranteeing Subsidiary on each Note authenticated and delivered by the Trustee after the date hereof.

- (b) Notwithstanding the foregoing, such Guaranteeing Subsidiary hereby agrees that its Subsidiary Guarantee set forth herein shall remain in full force and effect

notwithstanding any failure to endorse on each Note a notation of such Subsidiary Guarantee.

- (c) If an Officer whose signature is on this Supplemental Indenture or on the Subsidiary Guarantee no longer holds that office at the time the Trustee authenticates the Note on which a Subsidiary Guarantee is endorsed, the Subsidiary Guarantee shall be valid nevertheless.
- (d) The delivery of any Note by the Trustee, after the authentication thereof under the Indenture, shall constitute due delivery of the

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Subsidiary Guarantee set forth in this Supplemental Indenture on behalf of each Guaranteeing Subsidiary.

- (e) Each Guaranteeing Subsidiary hereby agrees that its obligations hereunder shall be unconditional, regardless of the validity, regularity or enforceability of the Notes or the Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.
- (f) Each Guaranteeing Subsidiary hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever and covenants that its Subsidiary Guarantee made pursuant to this Supplemental Indenture will not be discharged except by complete performance of the Obligations contained in the Notes and the Indenture.
- (g) If any Holder or the Trustee is required by any court or otherwise to return to the Company or any Guaranteeing Subsidiary, or any custodian, Trustee, liquidator or other similar official acting in relation to either the Company or such Guaranteeing Subsidiary, any amount paid by either to the Trustee or such Holder, the Subsidiary Guarantee made pursuant to this Supplemental Indenture, to the extent theretofore discharged, shall be reinstated in full force and effect.
- (h) Each Guaranteeing Subsidiary agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any Obligations guaranteed hereby until payment in full of all Obligations guaranteed hereby. Each Guaranteeing Subsidiary further agrees that, as between such Guaranteeing Subsidiary, on the one hand, and the Holders and the Trustee, on the other hand:
 - (i) the maturity of the Obligations guaranteed hereby may be accelerated as provided in Article 6 of the Indenture for the purposes of the Subsidiary Guarantee made pursuant to this Supplemental Indenture, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed hereby; and
 - (ii) in the event of any declaration of acceleration of such obligations as provided in Article 6 of the Indenture, such

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obligations (whether or not due and payable) shall forthwith become due and payable by such Guaranteeing Subsidiary for the purpose of the Subsidiary Guarantee made pursuant to this Supplemental Indenture.

- (i) Each Guaranteeing Subsidiary shall have the right to seek contribution from any other non-paying Guaranteeing Subsidiary so long as the exercise of such right does not impair the rights of the Holders or the Trustee under the Subsidiary Guarantee made pursuant to this Supplemental Indenture.
4. GUARANTEEING SUBSIDIARY MAY CONSOLIDATE, ETC. ON CERTAIN TERMS.
- (a) Except as set forth in Articles 4 and 5 of the Indenture, nothing contained in the Indenture,

this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into the Company or any other Guarantor or shall prevent any transfer, sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to the Company or any other Guarantor.

- (b) Except as set forth in Article 4 of the Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into a corporation or corporations other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary), or successive consolidations or mergers in which a Guaranteeing Subsidiary or its successor or successors shall be a party or parties, or shall prevent any sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to a corporation other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary) authorized to acquire and operate the same; provided, however, that each Guaranteeing Subsidiary hereby covenants and agrees that (i) subject to the Indenture, upon any such consolidation, merger, sale or conveyance, the due and punctual performance and observance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiaries, shall be expressly assumed (in the event that such Guaranteeing Subsidiary is not the surviving corporation in the merger), by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee, by the corporation formed by such consolidation, or into

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which such Guaranteeing Subsidiary shall have been merged, or by the corporation which shall have acquired such property and (ii) immediately after giving effect to such consolidation, merger, sale or conveyance no Default or Event of Default exists.

- (c) In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Subsidiary Guarantee made pursuant to this Supplemental Indenture and the due and punctual performance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiary, such successor corporation shall succeed to and be substituted for such Guaranteeing Subsidiary with the same effect as if it had been named herein as the Guaranteeing Subsidiary. Such successor corporation thereupon may cause to be signed any or all of the Subsidiary Guarantees to be endorsed upon the Notes issuable under the Indenture which theretofore shall not have been signed by the Company and delivered to the Trustee. All the Subsidiary Guarantees so issued shall in all respects have the same legal rank and benefit under the Indenture and this Supplemental Indenture as the Subsidiary Guarantees theretofore and thereafter issued in accordance with the terms of the Indenture and this Supplemental Indenture as though all of such Subsidiary Guarantees had been issued at the date of the execution hereof.

5. RELEASES.

- (a) Concurrently with any sale of assets (including, if applicable, all of the Capital Stock of a Guaranteeing Subsidiary), all Liens, if any, in favor of the Trustee in the assets sold thereby shall be released; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. If the assets sold in such sale or other disposition include all or substantially all of the assets of a Guaranteeing Subsidiary or all of the Capital Stock of a Guaranteeing Subsidiary, then the Guaranteeing Subsidiary (in the event of a sale or other disposition of all of the Capital Stock of such Guaranteeing Subsidiary) or the Person acquiring the property (in the event of a sale or other disposition of all or substantially

all of the assets of such Guaranteeing Subsidiary) shall be released from and relieved of its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the

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provisions of Section 4.10 of the Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate to the effect that such sale or other disposition was made by the Company or the Guaranteeing Subsidiary, as the case may be, in accordance with the provisions of the Indenture and this Supplemental Indenture, including without limitation, Section 4.10 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of the Guaranteeing Subsidiary from its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto. If the Guaranteeing Subsidiary is not released from its obligations under its Subsidiary Guarantee, it shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of such Guaranteeing Subsidiary under the Indenture as provided in this Supplemental Indenture.

- (b) Upon the designation of a Guaranteeing Subsidiary as an Unrestricted Subsidiary in accordance with the terms of the Indenture, such Guaranteeing Subsidiary shall be released and relieved of its obligations under its Subsidiary Guarantee and this Supplemental Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such designation of such Guaranteeing Subsidiary as an Unrestricted Subsidiary was made by the Company in accordance with the provisions of the Indenture, including without limitation Section 4.07 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of such Guaranteeing Subsidiary from its obligations under its Subsidiary Guarantee. Any Guaranteeing Subsidiary not released from its Obligations under its Subsidiary Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other Obligations of any Guaranteeing Subsidiary under the Indenture as provided herein.
- (c) Each Guaranteeing Subsidiary shall be released and relieved of its obligations under this Supplemental Indenture in accordance with, and subject to, Section 4.18 of the Indenture.

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6. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator, stockholder or agent of any Guaranteeing Subsidiary, as such, shall have any liability for any obligations of the Company or any Guaranteeing Subsidiary under the Notes, any Subsidiary Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

7. SUBORDINATION OF SUBSIDIARY GUARANTEES; ANTI-LAYERING. No Guaranteeing Subsidiary shall incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt of a Guaranteeing Subsidiary and senior in any respect in right of payment to any of the Subsidiary Guarantees. Notwithstanding the foregoing sentence, the Subsidiary Guarantee of each Guaranteeing Subsidiary shall be subordinated to the prior payment in full of all Senior Debt of that Guaranteeing Subsidiary (in the same manner and to the same extent that the Notes are subordinated to Senior Debt), which shall include all guarantees of Senior Debt.

8. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

9. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

10. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

11. THE TRUSTEE. The Trustee shall not be responsible in any manner

whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

Dated: March 10, 2005

L-3 COMMUNICATIONS CORPORATION

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Senior Vice President, Secretary
and General Counsel

Dated: March 10, 2005

APCOM, INC., a Maryland corporation
BROADCAST SPORTS INC., a Delaware corporation
D.P. ASSOCIATES INC., a Virginia corporation
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WESCAM SONOMA INC., a California corporation
WOLF COACH, INC., a Massachusetts corporation
As Guaranteeing Subsidiaries

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Vice President, Secretary

Dated: March 10, 2005

THE BANK OF NEW YORK,
as Trustee

By: /s/ Kisha A. Holder

Name: Kisha A. Holder

Title: Assistant Vice President

SUPPLEMENTAL INDENTURE TO BE DELIVERED
BY GUARANTEEING SUBSIDIARIES

Supplemental Indenture (this "Supplemental Indenture"), dated as of March 10, 2005, among L-3 Communications Corporation (or its permitted successor), a Delaware corporation (the "Company"), each a direct or indirect subsidiary of the Company signatory hereto (each, a "Guaranteeing Subsidiary", and collectively, the "Guaranteeing Subsidiaries"), and The Bank of New York, as trustee under the indenture referred to below (the "Trustee").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of December 22, 2003 providing for the issuance of an unlimited amount of 6 1/8% Senior Subordinated Notes due 2014 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Company's Obligations (as defined in the Indenture) under the Notes and the Indenture on the terms and conditions set forth herein (the "Subsidiary Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AGREEMENT TO GUARANTEE. Each Guaranteeing Subsidiary hereby agrees as follows:

(a) Such Guaranteeing Subsidiary, jointly and severally with all other current and future guarantors of the Notes (collectively, the "Guarantors" and each, a "Guarantor"), unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, regardless of the validity and enforceability of the Indenture, the Notes or the Obligations of the Company under the Indenture or the Notes, that:

(i) the principal of, premium, interest and Additional Interest, if any, on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of, premium, interest and Additional Amounts, if any, on the

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Notes, to the extent lawful, and all other Obligations of the Company to the Holders or the Trustee thereunder or under the Indenture will be promptly paid in full, all in accordance with the terms thereof; and

(ii) in case of any extension of time for payment or renewal of any Notes or any of such other Obligations, that the same will be promptly paid in full when due in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.

(b) Notwithstanding the foregoing, in the event that this Subsidiary Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of such Guaranteeing Subsidiary under this Supplemental Indenture and its Subsidiary Guarantee shall be reduced to the maximum amount permissible under such fraudulent conveyance or similar law.

3. EXECUTION AND DELIVERY OF SUBSIDIARY GUARANTEES.

(a) To evidence its Subsidiary Guarantee set forth in this Supplemental Indenture, such Guaranteeing Subsidiary hereby agrees that a notation of such Subsidiary Guarantee substantially in the form of Exhibit F to the Indenture shall be endorsed by an officer of such Guaranteeing Subsidiary on each Note authenticated and delivered by the Trustee after the date hereof.

(b) Notwithstanding the foregoing, such Guaranteeing Subsidiary hereby agrees that its Subsidiary Guarantee set forth herein shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Subsidiary Guarantee.

- (c) If an Officer whose signature is on this Supplemental Indenture or on the Subsidiary Guarantee no longer holds that office at the time the Trustee authenticates the Note on which a Subsidiary Guarantee is endorsed, the Subsidiary Guarantee shall be valid nevertheless.
- (d) The delivery of any Note by the Trustee, after the authentication thereof under the Indenture, shall constitute due delivery of the Subsidiary Guarantee set forth in this Supplemental Indenture on behalf of each Guaranteeing Subsidiary.
- (e) Each Guaranteeing Subsidiary hereby agrees that its Obligations hereunder shall be unconditional, regardless of the validity, regularity or enforceability of the Notes or the Indenture, the

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absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

- (f) Each Guaranteeing Subsidiary hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever and covenants that its Subsidiary Guarantee made pursuant to this Supplemental Indenture will not be discharged except by complete performance of the Obligations contained in the Notes and the Indenture.
- (g) If any Holder or the Trustee is required by any court or otherwise to return to the Company or any Guaranteeing Subsidiary, or any custodian, Trustee, liquidator or other similar official acting in relation to either the Company or such Guaranteeing Subsidiary, any amount paid by either to the Trustee or such Holder, the Subsidiary Guarantee made pursuant to this Supplemental Indenture, to the extent theretofore discharged, shall be reinstated in full force and effect.
- (h) Each Guaranteeing Subsidiary agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any Obligations guaranteed hereby until payment in full of all Obligations guaranteed hereby. Each Guaranteeing Subsidiary further agrees that, as between such Guaranteeing Subsidiary, on the one hand, and the Holders and the Trustee, on the other hand:

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- (i) the maturity of the Obligations guaranteed hereby may be accelerated as provided in Article 6 of the Indenture for the purposes of the Subsidiary Guarantee made pursuant to this Supplemental Indenture, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby; and
- (ii) in the event of any declaration of acceleration of such Obligations as provided in Article 6 of the Indenture, such Obligations (whether or not due and payable) shall forthwith become due and payable by such Guaranteeing Subsidiary for the purpose of the Subsidiary Guarantee made pursuant to this Supplemental Indenture.
- (i) Each Guaranteeing Subsidiary shall have the right to seek contribution from any other non-paying Guaranteeing Subsidiary so long as the exercise of such right does not impair the rights of the Holders or the Trustee under the Subsidiary Guarantee made pursuant to this Supplemental Indenture.

4. GUARANTEEING SUBSIDIARY MAY CONSOLIDATE, ETC. ON CERTAIN TERMS.

- (a) Except as set forth in Articles 4 and 5 of the Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into the Company or any other Guarantor or shall prevent any transfer, sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to the Company or any other Guarantor.
- (b) Except as set forth in Article 4 and 5 of the Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into a corporation or corporations other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary), or successive consolidations or mergers in which a Guaranteeing Subsidiary or its successor or successors shall be

a party or parties, or shall prevent any sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to a corporation other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary) authorized to acquire and operate the same; provided, however, that each Guaranteeing Subsidiary hereby covenants and agrees that (i) subject to the Indenture, upon

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any such consolidation, merger, sale or conveyance, the due and punctual performance and observance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiaries, shall be expressly assumed (in the event that such Guaranteeing Subsidiary is not the surviving corporation in the merger), by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee, by the corporation formed by such consolidation, or into which such Guaranteeing Subsidiary shall have been merged, or by the corporation which shall have acquired such property and (ii) immediately after giving effect to such consolidation, merger, sale or conveyance no Default or Event of Default exists.

- (c) In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Subsidiary Guarantee made pursuant to this Supplemental Indenture and the due and punctual performance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiary, such successor corporation shall succeed to and be substituted for such Guaranteeing Subsidiary with the same effect as if it had been named herein as the Guaranteeing Subsidiary. Such successor corporation thereupon may cause to be signed any or all of the Subsidiary Guarantees to be endorsed upon the Notes issuable under the Indenture which theretofore shall not have been signed by the Company and delivered to the Trustee. All the Subsidiary Guarantees so issued shall in all respects have the same legal rank and benefit under the Indenture and this Supplemental Indenture as the Subsidiary Guarantees theretofore and thereafter issued in accordance with the terms of the Indenture and this Supplemental Indenture as though all of such Subsidiary Guarantees had been issued at the date of the execution hereof.

5. RELEASES.

- (a) Concurrently with any sale of assets (including, if applicable, all of the Capital Stock of a Guaranteeing Subsidiary), all Liens, if any, in favor of the Trustee in the assets sold thereby shall be released; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. If the assets sold in such sale or other disposition include all or substantially all of the assets of a Guaranteeing Subsidiary or all of the Capital Stock of a Guaranteeing Subsidiary, then the Guaranteeing Subsidiary (in the event of a sale or other disposition of all of the Capital Stock of such Guaranteeing Subsidiary) or the Person acquiring the property (in the

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event of a sale or other disposition of all or substantially all of the assets of such Guaranteeing Subsidiary) shall be released from and relieved of its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate to the effect that such sale or other disposition was made by the Company or the Guaranteeing Subsidiary, as the case may be, in accordance with the provisions of the Indenture and this Supplemental Indenture, including without limitation, Section 4.10 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of the Guaranteeing Subsidiary from its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto. If the Guaranteeing Subsidiary is not released from its obligations under its Subsidiary Guarantee, it shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of such Guaranteeing Subsidiary under the Indenture as provided in this Supplemental Indenture.

- (b) Upon the designation of a Guaranteeing Subsidiary as an Unrestricted Subsidiary in accordance with the terms of the Indenture, such Guaranteeing Subsidiary shall be released and relieved of its Obligations under its Subsidiary Guarantee and this Supplemental Indenture. Upon delivery by the Company to the

Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such designation of such Guaranteeing Subsidiary as an Unrestricted Subsidiary was made by the Company in accordance with the provisions of the Indenture, including without limitation Section 4.07 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of such Guaranteeing Subsidiary from its Obligations under its Subsidiary Guarantee. Any Guaranteeing Subsidiary not released from its Obligations under its Subsidiary Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other Obligations of any Guaranteeing Subsidiary under the Indenture as provided herein.

- (c) Each Guaranteeing Subsidiary shall be released and relieved of its obligations under this Supplemental Indenture in accordance with, and subject to, Section 4.18 of the Indenture.

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6. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator, stockholder or agent of any Guaranteeing Subsidiary, as such, shall have any liability for any Obligations of the Company or any Guaranteeing Subsidiary under the Notes, any Subsidiary Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such Obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

7. SUBORDINATION OF SUBSIDIARY GUARANTEES; ANTI-LAYERING. No Guaranteeing Subsidiary shall incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt of a Guaranteeing Subsidiary and senior in any respect in right of payment to any of the Subsidiary Guarantees. Notwithstanding the foregoing sentence, the Subsidiary Guarantee of each Guaranteeing Subsidiary shall be subordinated to the prior payment in full of all Senior Debt of that Guaranteeing Subsidiary (in the same manner and to the same extent that the Notes are subordinated to Senior Debt), which shall include all guarantees of Senior Debt.

8. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

9. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

10. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

11. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries and the Company.

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IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

Dated: March 10, 2005

L-3 COMMUNICATIONS CORPORATION

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Senior Vice President, Secretary
and General Counsel

Dated: March 10, 2005

APCOM, INC., a Maryland corporation
BROADCAST SPORTS INC., a Delaware corporation
D.P. ASSOCIATES INC., a Virginia corporation
ELECTRODYNAMICS, INC., an Arizona corporation
HENSCHel INC., a Delaware corporation
HYGIENETICS ENVIRONMENTAL SERVICES, INC., a Delaware corporation
INTERSTATE ELECTRONICS CORPORATION, a California corporation
KDI PRECISION PRODUCTS, INC., a Delaware corporation
L-3 COMMUNICATIONS AEROMET, INC., an Oregon corporation
L-3 COMMUNICATIONS VERTEX AEROSPACE LLC, a Delaware limited liability company L-3

COMMUNICATIONS AIS GP CORPORATION, a Delaware
 corporation L-3 COMMUNICATIONS
 AVIONICS SYSTEMS, INC., a Delaware corporation L-3
 COMMUNICATIONS AVYSIS
 CORPORATION, a Texas corporation
 L-3 COMMUNICATIONS AYDIN CORPORATION, a Delaware
 corporation
 L-3 COMMUNICATIONS CSI, INC., a California corporation
 L-3 COMMUNICATIONS CE HOLDINGS, INC., a Delaware
 corporation
 L-3 COMMUNICATIONS CINCINNATI ELECTRONICS CORPORATION,
 an Ohio corporation
 L-3 COMMUNICATIONS ELECTRON TECHNOLOGIES, INC., a
 Delaware corporation
 L-3 COMMUNICATIONS ESSCO, INC., a Delaware corporation
 L-3 COMMUNICATIONS FLIGHT INTERNATIONAL AVIATION LLC,
 a Delaware limited liability company
 L-3 COMMUNICATIONS FLIGHT CAPITAL LLC, a Delaware
 limited liability company
 L-3 COMMUNICATIONS GOVERNMENT SERVICES, INC., a
 Virginia corporation
 L-3 COMMUNICATIONS ILEX SYSTEMS, INC., a Delaware
 corporation
 L-3 COMMUNICATIONS INTEGRATED SYSTEMS L.P., a Delaware
 limited partnership
 L-3 COMMUNICATIONS INVESTMENTS INC., a Delaware
 corporation
 L-3 COMMUNICATIONS KLEIN ASSOCIATES, INC., a Delaware
 corporation
 L-3 COMMUNICATIONS MAPPS INVESTMENTS, LLC, a Delaware
 limited liability company

L-3 COMMUNICATIONS MAS (US) CORPORATION, a Delaware
 corporation
 L-3 COMMUNICATIONS SECURITY AND DETECTION SYSTEMS,
 INC., a Delaware corporation
 L-3 COMMUNICATIONS STORM CONTROL SYSTEMS, INC., a
 California corporation
 L-3 COMMUNICATIONS VECTOR INTERNATIONAL AVIATION LLC,
 a Delaware limited liability company
 L-3 COMMUNICATIONS WESTWOOD CORPORATION, a Nevada
 corporation
 MCTI ACQUISITION CORPORATION, a Maryland corporation
 MICRODYNE COMMUNICATIONS TECHNOLOGIES INCORPORATED, a
 Maryland corporation
 MICRODYNE CORPORATION, a Maryland corporation
 MICRODYNE OUTSOURCING INCORPORATED, a Maryland
 corporation
 MPRI, INC., a Delaware corporation
 PAC ORD INC., a Delaware corporation
 POWER PARAGON, INC., a Delaware corporation
 SHIP ANALYTICS, INC., a Connecticut corporation
 SHIP ANALYTICS INTERNATIONAL, INC., a Delaware
 corporation
 SHIP ANALYTICS USA, INC., a Connecticut corporation
 SPD ELECTRICAL SYSTEMS, INC., a Delaware corporation
 SPD SWITCHGEAR INC., a Delaware corporation
 SYCOLEMAN CORPORATION, a Florida corporation
 TROLL TECHNOLOGY CORPORATION, a California corporation
 WESCAM AIR OPS INC., a Delaware corporation
 WESCAM AIR OPS LLC, a Delaware limited liability
 company
 WESCAM HOLDINGS (US) INC., a Delaware corporation
 WESCAM INCORPORATED, a Florida corporation
 WESCAM LLC, a Delaware limited liability company
 WESCAM SONOMA INC., a California corporation
 WOLF COACH, INC., a Massachusetts corporation As
 Guaranteeing Subsidiaries

By: /s/ Christopher C. Cambria

 Name: Christopher C. Cambria
 Title: Vice President, Secretary

Dated: March 10, 2005

THE BANK OF NEW YORK,
 as Trustee

By: /s/ Kisha A. Holder

 Name: Kisha A. Holder
 Title: Assistant Vice President

SUPPLEMENTAL INDENTURE TO BE DELIVERED
BY GUARANTEEING SUBSIDIARIES

Supplemental Indenture (this "Supplemental Indenture"), dated as of March 10, 2005, among L-3 Communications Corporation (or its permitted successor), a Delaware corporation (the "Company"), each a direct or indirect subsidiary of the Company signatory hereto (each, a "Guaranteeing Subsidiary", and collectively, the "Guaranteeing Subsidiaries"), and The Bank of New York, as trustee under the indenture referred to below (the "Trustee").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of November 12, 2004 providing for the issuance of an unlimited amount of 5 7/8% Senior Subordinated Notes due 2015 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiaries shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiaries shall unconditionally guarantee all of the Company's Obligations (as defined in the Indenture) under the Notes and the Indenture on the terms and conditions set forth herein (the "Subsidiary Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

12. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

13. AGREEMENT TO GUARANTEE. Each Guaranteeing Subsidiary hereby agrees as follows:

- (a) Such Guaranteeing Subsidiary, jointly and severally with all other current and future guarantors of the Notes (collectively, the "Guarantors" and each, a "Guarantor"), unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, regardless of the validity and enforceability of the Indenture, the Notes or the Obligations of the Company under the Indenture or the Notes, that:
 - (i) the principal of, premium, interest and Additional Interest, if any, on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of, premium, interest and Additional Amounts, if any, on the

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Notes, to the extent lawful, and all other Obligations of the Company to the Holders or the Trustee thereunder or under the Indenture will be promptly paid in full, all in accordance with the terms thereof; and

- (ii) in case of any extension of time for payment or renewal of any Notes or any of such other Obligations, that the same will be promptly paid in full when due in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise.
- (b) Notwithstanding the foregoing, in the event that this Subsidiary Guarantee would constitute or result in a violation of any applicable fraudulent conveyance or similar law of any relevant jurisdiction, the liability of such Guaranteeing Subsidiary under this Supplemental Indenture and its Subsidiary Guarantee shall be reduced to the maximum amount permissible under such fraudulent conveyance or similar law.

14. Execution and Delivery of Subsidiary Guarantees.

- (a) To evidence its Subsidiary Guarantee set forth in this Supplemental Indenture, such Guaranteeing Subsidiary hereby agrees that a notation of such Subsidiary Guarantee substantially in the form of Exhibit F to the Indenture shall be endorsed by an officer of such Guaranteeing Subsidiary on each Note authenticated and delivered by the Trustee after the date hereof.

- (b) Notwithstanding the foregoing, such Guaranteeing Subsidiary hereby agrees that its Subsidiary Guarantee set forth herein shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Subsidiary Guarantee.
- (c) If an Officer whose signature is on this Supplemental Indenture or on the Subsidiary Guarantee no longer holds that office at the time the Trustee authenticates the Note on which a Subsidiary Guarantee is endorsed, the Subsidiary Guarantee shall be valid nevertheless.
- (d) The delivery of any Note by the Trustee, after the authentication thereof under the Indenture, shall constitute due delivery of the Subsidiary Guarantee set forth in this Supplemental Indenture on behalf of each Guaranteeing Subsidiary.
- (e) Each Guaranteeing Subsidiary hereby agrees that its Obligations hereunder shall be unconditional, regardless of the validity, regularity or enforceability of the Notes or the Indenture, the

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absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

- (f) Each Guaranteeing Subsidiary hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever and covenants that its Subsidiary Guarantee made pursuant to this Supplemental Indenture will not be discharged except by complete performance of the Obligations contained in the Notes and the Indenture.
- (g) If any Holder or the Trustee is required by any court or otherwise to return to the Company or any Guaranteeing Subsidiary, or any custodian, Trustee, liquidator or other similar official acting in relation to either the Company or such Guaranteeing Subsidiary, any amount paid by either to the Trustee or such Holder, the Subsidiary Guarantee made pursuant to this Supplemental Indenture, to the extent theretofore discharged, shall be reinstated in full force and effect.
- (h) Each Guaranteeing Subsidiary agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any Obligations guaranteed hereby until payment in full of all Obligations guaranteed hereby. Each Guaranteeing Subsidiary further agrees that, as between such Guaranteeing Subsidiary, on the one hand, and the Holders and the Trustee, on the other hand:

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- (i) the maturity of the Obligations guaranteed hereby may be accelerated as provided in Article 6 of the Indenture for the purposes of the Subsidiary Guarantee made pursuant to this Supplemental Indenture, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Obligations guaranteed hereby; and
- (ii) in the event of any declaration of acceleration of such Obligations as provided in Article 6 of the Indenture, such Obligations (whether or not due and payable) shall forthwith become due and payable by such Guaranteeing Subsidiary for the purpose of the Subsidiary Guarantee made pursuant to this Supplemental Indenture.
- (i) Each Guaranteeing Subsidiary shall have the right to seek contribution from any other non-paying Guaranteeing Subsidiary so long as the exercise of such right does not impair the rights of the Holders or the Trustee under the Subsidiary Guarantee made pursuant to this Supplemental Indenture.

15. Guaranteeing Subsidiary May Consolidate, Etc. on Certain Terms.

- (a) Except as set forth in Articles 4 and 5 of the

Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into the Company or any other Guarantor or shall prevent any transfer, sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to the Company or any other Guarantor.

- (b) Except as set forth in Article 4 and 5 of the Indenture, nothing contained in the Indenture, this Supplemental Indenture or in the Notes shall prevent any consolidation or merger of any Guaranteeing Subsidiary with or into a corporation or corporations other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary), or successive consolidations or mergers in which a Guaranteeing Subsidiary or its successor or successors shall be a party or parties, or shall prevent any sale or conveyance of the property of any Guaranteeing Subsidiary as an entirety or substantially as an entirety, to a corporation other than the Company or any other Guarantor (in each case, whether or not affiliated with the Guaranteeing Subsidiary) authorized to acquire and operate the same; provided, however, that each Guaranteeing Subsidiary hereby covenants and agrees that (i) subject to the Indenture, upon

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any such consolidation, merger, sale or conveyance, the due and punctual performance and observance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiaries, shall be expressly assumed (in the event that such Guaranteeing Subsidiary is not the surviving corporation in the merger), by supplemental indenture satisfactory in form to the Trustee, executed and delivered to the Trustee, by the corporation formed by such consolidation, or into which such Guaranteeing Subsidiary shall have been merged, or by the corporation which shall have acquired such property and (ii) immediately after giving effect to such consolidation, merger, sale or conveyance no Default or Event of Default exists.

- (c) In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Subsidiary Guarantee made pursuant to this Supplemental Indenture and the due and punctual performance of all of the covenants and conditions of the Indenture and this Supplemental Indenture to be performed by such Guaranteeing Subsidiary, such successor corporation shall succeed to and be substituted for such Guaranteeing Subsidiary with the same effect as if it had been named herein as the Guaranteeing Subsidiary. Such successor corporation thereupon may cause to be signed any or all of the Subsidiary Guarantees to be endorsed upon the Notes issuable under the Indenture which theretofore shall not have been signed by the Company and delivered to the Trustee. All the Subsidiary Guarantees so issued shall in all respects have the same legal rank and benefit under the Indenture and this Supplemental Indenture as the Subsidiary Guarantees theretofore and thereafter issued in accordance with the terms of the Indenture and this Supplemental Indenture as though all of such Subsidiary Guarantees had been issued at the date of the execution hereof.

16. Releases.

- (a) Concurrently with any sale of assets (including, if applicable, all of the Capital Stock of a Guaranteeing Subsidiary), all Liens, if any, in favor of the Trustee in the assets sold thereby shall be released; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. If the assets sold in such sale or other disposition include all or substantially all of the assets of a Guaranteeing Subsidiary or all of the Capital Stock of a Guaranteeing Subsidiary, then the Guaranteeing Subsidiary (in the

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event of a sale or other disposition of all of the Capital Stock of such Guaranteeing Subsidiary) or the

Person acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such Guaranteeing Subsidiary) shall be released from and relieved of its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto; provided that in the event of an Asset Sale, the Net Proceeds from such sale or other disposition are treated in accordance with the provisions of Section 4.10 of the Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate to the effect that such sale or other disposition was made by the Company or the Guaranteeing Subsidiary, as the case may be, in accordance with the provisions of the Indenture and this Supplemental Indenture, including without limitation, Section 4.10 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of the Guaranteeing Subsidiary from its Obligations under this Supplemental Indenture and its Subsidiary Guarantee made pursuant hereto. If the Guaranteeing Subsidiary is not released from its obligations under its Subsidiary Guarantee, it shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of such Guaranteeing Subsidiary under the Indenture as provided in this Supplemental Indenture.

- (b) Upon the designation of a Guaranteeing Subsidiary as an Unrestricted Subsidiary in accordance with the terms of the Indenture, such Guaranteeing Subsidiary shall be released and relieved of its Obligations under its Subsidiary Guarantee and this Supplemental Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such designation of such Guaranteeing Subsidiary as an Unrestricted Subsidiary was made by the Company in accordance with the provisions of the Indenture, including without limitation Section 4.07 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of such Guaranteeing Subsidiary from its Obligations under its Subsidiary Guarantee. Any Guaranteeing Subsidiary not released from its Obligations under its Subsidiary Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other Obligations of any Guaranteeing Subsidiary under the Indenture as provided herein.
- (c) Each Guaranteeing Subsidiary shall be released and relieved of its obligations under this Supplemental Indenture in accordance with, and subject to, Section 4.18 of the Indenture.

17. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, incorporator, stockholder or agent of any Guaranteeing Subsidiary, as such, shall have any liability for any Obligations of the Company or any Guaranteeing Subsidiary under the Notes, any Subsidiary Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such Obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

18. SUBORDINATION OF SUBSIDIARY GUARANTEES; ANTI-LAYERING. No Guaranteeing Subsidiary shall incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt of a Guaranteeing Subsidiary and senior in any respect in right of payment to any of the Subsidiary Guarantees. Notwithstanding the foregoing sentence, the Subsidiary Guarantee of each Guaranteeing Subsidiary shall be subordinated to the prior payment in full of all Senior Debt of that Guaranteeing Subsidiary (in the same manner and to the same extent that the Notes are subordinated to Senior Debt), which shall include all guarantees of Senior Debt.

19. THIS SUPPLEMENTAL INDENTURE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

20. COUNTERPARTS. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

21. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

22. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiaries and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

Dated: March 10, 2005

L-3 COMMUNICATIONS CORPORATION

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria
Title: Senior Vice President, Secretary
and General Counsel

Dated: March 10, 2005

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L-3 COMMUNICATIONS VERTEX AEROSPACE LLC, a
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corporation L-3 COMMUNICATIONS
AVIONICS SYSTEMS, INC., a Delaware corporation L-3
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CORPORATION, a Texas corporation
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L-3 COMMUNICATIONS CSI, INC., a California
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L-3 COMMUNICATIONS CE HOLDINGS, INC., a Delaware
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L-3 COMMUNICATIONS CINCINNATI ELECTRONICS
CORPORATION, an Ohio corporation
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Delaware corporation
L-3 COMMUNICATIONS ESSCO, INC., a Delaware
corporation
L-3 COMMUNICATIONS FLIGHT INTERNATIONAL AVIATION
LLC, a Delaware limited liability company
L-3 COMMUNICATIONS FLIGHT CAPITAL LLC, a Delaware
limited liability company
L-3 COMMUNICATIONS GOVERNMENT SERVICES, INC., a
Virginia corporation
L-3 COMMUNICATIONS ILEX SYSTEMS, INC., a Delaware
corporation
L-3 COMMUNICATIONS INTEGRATED SYSTEMS L.P., a
Delaware limited partnership
L-3 COMMUNICATIONS INVESTMENTS INC., a Delaware
corporation
L-3 COMMUNICATIONS KLEIN ASSOCIATES, INC., a
Delaware corporation
L-3 COMMUNICATIONS MAPPS INVESTMENTS, LLC, a
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SYCOLEMAN CORPORATION, a Florida corporation
TROLL TECHNOLOGY CORPORATION, a California
corporation
WESCAM AIR OPS INC., a Delaware corporation
WESCAM AIR OPS LLC, a Delaware limited liability
company
WESCAM HOLDINGS (US) INC., a Delaware corporation
WESCAM INCORPORATED, a Florida corporation
WESCAM LLC, a Delaware limited liability company
WESCAM SONOMA INC., a California corporation
WOLF COACH, INC., a Massachusetts corporation
As Guaranteeing Subsidiaries

By: /s/ Christopher C. Cambria

Name: Christopher C. Cambria

Title: Vice President, Secretary

Dated: March 10, 2005

THE BANK OF NEW YORK,
as Trustee

By: /s/ Kisha A. Holder

Name: Kisha A. Holder

Title: Assistant Vice President

L-3 COMMUNICATIONS HOLDINGS, INC.
1998 DIRECTORS STOCK OPTION PLAN
NONQUALIFIED STOCK OPTION AGREEMENT

THIS AGREEMENT, effective as of the th day of , (the "Grant Date"), between L-3 Communications Holdings, Inc., a Delaware corporation (the "Company"), and (the "Optionee").

WHEREAS, the Company has adopted the 1998 Directors Stock Option Plan Directors of L-3 Communications Holdings, Inc. (the "Plan") in order to provide additional incentive to selected officers and employees of the Company and its subsidiaries; and

WHEREAS, the Committee responsible for administration of the Plan has determined to grant an option to the Optionee as provided herein and the Company and the Optionee hereby wish to memorialize the terms and conditions applicable to the Option (as defined below);

NOW, THEREFORE, the parties hereto agree as follows:

1. Grant of Option.

1.1 Effective as of the Grant Date, for good and valuable consideration, the Company hereby irrevocably grants to the Optionee the right and option (the "Option") to purchase all or any part of an aggregate of shares (the "Shares") of the Company's Common Stock, par value \$0.01 per share, subject to, and in accordance with, the terms and conditions set forth in this Option Agreement.

1.2 The Option is not intended to qualify as an Incentive Stock Option within the meaning of Section 422 of the Code.

1.3 This Option Agreement shall be construed in accordance and consistent with, and subject to, the terms of the Plan (the provisions of which are incorporated hereby by reference); and, except as otherwise expressly set forth herein, the capitalized terms used in this Option Agreement shall have the same definitions as set forth in the Plan.

2. Exercise Price.

The price at which the Optionee shall be entitled to purchase the Shares upon the exercise of the Option shall be \$ per Share subject to adjustment as provided in Section 9, without commission or other charge.

3. Duration of Option.

The Option shall be exercisable to the extent and in the manner provided herein for a period of ten (10) years from the Grant Date (the "Exercise Term"); provided, however, that the Option may be earlier terminated as provided in Section 6 hereof.

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4. Exercisability of Option.

Unless otherwise provided in this Option Agreement or the Plan, the Option shall entitle the Optionee to purchase, in whole at any time or in part from time to time, one-third (1/3) of the total number of shares covered by the Option on the first anniversary of the Grant Date, a one-third (1/3) of the total number of Shares covered by the Option on the second anniversary of the Grant Date and the final one-third (1/3) of the total number of Shares covered by the Option on the third anniversary of the Grant Date. Each such right of purchase shall be cumulative and shall continue, unless sooner exercised or terminated as herein provided, during the remaining period of the Exercise Term. Any fractional number of shares resulting from the application of the foregoing percentages shall be rounded to the next higher whole number of Shares (not to exceed the total number of Shares granted as provided in Section 1.1).

5. Manner of Exercise and Payment.

5.1 Subject to the terms and conditions of this Option Agreement and the Plan, the Option may be exercised by delivery of written notice to the Secretary of the Company, at its principal executive office. Such notice shall state that the Optionee or other authorized person is electing to exercise the Option and the number of Shares in respect of which the Option is being exercised and shall be signed by the person or persons exercising the Option. Any exercisable portion of the Option or the entire Option, if then wholly exercisable, may be exercised in whole or in part, provided that partial exercise shall be for whole shares of Common Stock only. If requested by the Committee, such person or persons shall (i) deliver this Agreement to the Secretary of the Company who shall endorse thereon a notation of such exercise and (ii) provide satisfactory proof as to the right of such person or persons to exercise the Option.

5.2 The notice of exercise described in Section 5.1 shall be accompanied by (x) either (i) payment of the full purchase price for the Shares in respect of which the Option is being exercised, in cash, by check or a combination thereof or (ii) subject to the consent of the Committee, instructions from the Optionee to the Company directing the Company to deliver a specified number of Shares directly to a designated broker or dealer pursuant to a cashless exercise election which is made in accordance with such requirements and

procedures as are acceptable to the Committee in its sole discretion and (y) full payment of all applicable Withholding Taxes (as defined in Section 11) pursuant to Section 11 hereof.

5.3 Upon receipt of the notice of exercise and any payment or other documentation as may be necessary pursuant to Section 5.2 relating to the Shares in respect of which the Option is being exercised, the Company shall, subject to the Plan and this Option Agreement, take such action as may be necessary to effect the transfer to the Optionee of the number of Shares as to which such exercise was effective.

5.4 The Optionee shall not be deemed to be the holder of, or to have any of the rights and privileges of a stockholder of the Company in respect of, Shares purchased upon exercise of the Option until (i) the Option shall have been exercised pursuant to the terms of this Option Agreement and the Optionee shall have paid the full purchase price for the number of Shares in respect of which the Option was exercised and any applicable Withholding Taxes and (ii) the Company shall have issued certificates representing such Shares to the Optionee.

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6. Termination of Employment.

6.1 If, prior to the date of the initial vesting of the Option pursuant to Section 4 hereof (the "Initial Vesting Date"), the Optionee's shall cease to be a director of the Company for any reason, the Optionee's right to exercise the Option shall terminate as of the effective date of termination (the "Termination Date") and all rights hereunder shall cease.

6.2 If, on or after the Initial Vesting Date, the Optionee's shall cease to be a director of the Company for any reason other than death, permanent disability or for Cause, the Optionee shall have the right within three months after the Termination Date to exercise the Option to the extent that installments thereof shall have accrued at the Termination Date and shall not have been exercised, subject to any other limitation contained herein on the exercise of the Option in effect at the date of exercise. If the Optionee's shall cease to be a director for Cause, the Option shall terminate as of the Termination Date, whether or not exercisable. For purposes hereof, "Cause" means the Optionee's (i) intentional failure to perform reasonably assigned duties, (ii) dishonesty or willful misconduct in the performance of duties, (iii) engaging in a transaction in connection with the performance of duties to the Company which transaction is adverse to the interests of the Company and is engaged in for personal profit or (iv) willful violation of any law, rule or regulation in connection with the performance of duties (other than traffic violations or similar offenses).

6.3 If the Optionee shall die within the three-month period referred to in 6.2 above, or shall die or become permanently disabled while a director of the Company on or after the Initial Vesting Date, the Optionee or the executor or administrator of the estate of the Optionee or the person or persons to whom the Option shall have been validly transferred by the executor or administrator pursuant to will or the laws of descent and distribution shall have the right, within one year from the date of the Optionee's death or permanent disability, to exercise the Option to the extent that the Option was exercisable at the date of death, subject to any other limitation contained herein on the exercise of the Option in effect at the date of exercise.

7. Nontransferability.

The Option shall not be transferable other than by will or by the laws of descent and distribution or by such other means explicitly permitted pursuant to Rule 16b-3 under the Exchange Act. During the lifetime of the Optionee, the Option shall be exercisable only by the Optionee. After the death of the Optionee, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 6.3, be exercised by the Optionee's personal representative or by any person empowered to do so under the Optionee's will or under the then applicable laws of descent and distribution.

8. No Right to Continue As Director.

Nothing in this Option Agreement or the Plan shall be interpreted or construed to confer upon the Optionee any right to continue as a director of the Company, nor shall this Agreement or the Plan interfere in any way with the right of the Company or its directors or stockholders to remove the Optionee in accordance with the By-laws of the Company.

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9. Adjustments.

In the event that the outstanding shares of the Common Stock are, from time to time, changed into or exchanged for a different number or kind of shares of the capital stock of the Company or other securities of the Company by reason of a merger, consolidation, recapitalization, reclassification, stock split, stock dividend, combination of capital stock, or other similar increase or decrease in the number of shares outstanding without receiving compensation therefor, the Committee shall make an appropriate and equitable adjustment in the number and kind of Shares or other consideration as to which such Option, or portions thereof then unexercised, shall be exercisable and the exercise price therefor. Any such adjustment made by the Committee shall be final, binding and conclusive upon the Optionee, the Company and all other interested persons. Any such adjustment may provide for the elimination of any fractional share which might otherwise become subject to the Option.

10. Effect of a Change in Control.

10.1 Notwithstanding anything contained in the Plan or this Agreement to the contrary, in the event of a Change in Control, (a) the Option becomes immediately fully exercisable as to 100% of the Shares subject to the Option, and (b) upon termination of an Optionee's employment with the Company, following a Change in Control, the Option shall remain exercisable until one year after termination, but in no event beyond the Exercise Term. In the case of a Change in Control which is intended to be treated as a "pooling of interests" under generally accepted accounting principals (a "Pooling Transaction"), the Board of Directors may take such actions which it determines after consultation with its advisors that are reasonably necessary in order to assure that the Pooling Transaction will qualify as such. The Company reserves the right to change or modify in any way the definition of Change of Control set forth in this Option Agreement and any such change or modification shall be binding on the Optionee.

10.2 For the purposes of this Option Agreement, "Change in Control shall mean the first to occur of the following:

- a. 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 51% or more of the combined voting power of the Company's then outstanding voting securities, other than (i) pursuant to a transfer by Lehman Brothers Capital Partners III, L.P. to any of its affiliates or (ii) by any employee benefit plan maintained by the Company;
- b. The sale of all or substantially all the assets of the Company or its subsidiaries; or
- c. 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 Company who either (i) is a member of the Board of Directors on September 15, 1998, 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.

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11. Withholding of Taxes.

The Company shall have the right to deduct from any distribution of cash to the Optionee an amount equal to the federal, state and local income taxes and other amounts as may be required by law to be withheld (the "Withholding Taxes") with respect to the Option. The Optionee shall pay the Withholding Taxes to the Company in cash prior to the issuance of the Shares. In satisfaction of the Withholding Taxes, the Optionee may make a written election (the "Tax Election"), which may be accepted or rejected in the discretion of the Committee, to have withheld a portion of the Shares issuable to him or her upon exercise of the Option. For withholding tax purposes, the Shares should be valued on the date the withholding obligation is incurred, provided that to the extent applicable, such election is made in accordance with Rule 16b-3(e) of the Act.

12. Optionee bound by the Plan.

The Optionee hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

13. Modification of Agreement.

This Agreement may be modified, amended, suspended or terminated, and any terms or conditions may be waived, but, subject to paragraphs 6.4 and 10.1, only by a written instrument executed by the parties hereto.

14. 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.

15. 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.

16. Successors in Interest.

This Agreement shall inure to the benefit of and be binding upon any such successor to the Company. This Agreement shall inure to the benefit of the Optionee or the Optionee's legal representatives. All obligations imposed upon the Optionee and all rights granted to the Company under this Agreement shall be final, binding and conclusive upon the Optionee's heirs, executors, administrators and successors.

17. Administration.

The Committee shall have the power to interpret the Plan and this Option 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 Optionee, the Company 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 Options. 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 Option Agreement.

18. 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 Optionee and Company for all purposes.

By: _____
Christopher C. Cambria
Sr. Vice President, Secretary &
General Counsel

Attests: _____
Assistant Secretary

Director Signature

Director Social Security Number

Current Director Address:

Exhibit 12

**L-3 Communications Holdings, Inc.
and L-3 Communications Corporation
Ratio of Earnings to Fixed Charges**

	Year Ended December 31,				
	2004	2003	2002	2001	2000
Earnings:					
Income before income taxes and cumulative effect of a change in accounting principle	\$ 596,688	\$ 433,813	\$ 314,023	\$ 186,222	\$ 134,079
Add:					
Interest expense	138,153	124,706	115,100	80,002	87,308
Amortization of debt expense	7,195	7,977	7,392	6,388	5,724
Interest component of rent expense	26,814	24,364	22,342	14,332	11,882
Earnings	768,850	\$ 590,860	\$ 458,857	\$ 286,944	\$ 238,993
Fixed charges:					
Interest expense	138,153	124,706	115,100	80,002	87,308
Amortization of debt expense	7,195	7,977	7,392	6,388	5,724
Interest component of rent expense	26,814	24,364	22,342	14,332	11,882
Fixed charges	172,162	\$ 157,047	\$ 144,834	\$ 100,722	\$ 104,914
Ratio of earnings to fixed charges	4.5x	3.8x	3.2x	2.8x	2.3x

L-3 Communications Holdings, Inc. and Subsidiaries
As of December 31, 2004

L-3 Communications Holdings, Inc.
L-3 Communications Corporation
6292151 Canada Inc.
L-3 Communications Electronic Systems
135363 Canada Inc.
Aviation Communications & Surveillance Systems, LLC (70%)
ACSS – NZSC Limited (70%)
Honeywell TCAS Inc. (70%)
C3-ilex, LLC (25.2%)
CMC Holdings, Inc.
L-3 Communications Cincinnati Electronics Corporation
Sonoma Design Group, Inc. (34%)
Electrodynamics, Inc.
Henschel Inc.
Hygienetics Environmental Services, Inc.
Interstate Electronics Corporation
KDI Precision Products, Inc.
L-3 Canada Acquisition Inc.
Wescam Inc.
1179023 Ontario Ltd
1374474 Ontario Inc.
Film Europe Limited (20%)
Mosaic Mapping Inc. (14%)
New Vision Group Inc. (10%)
Wescam Asia Pte Ltd (50%)
Wescam Europe Limited
Wescam Financial (U.S.A.) LLC
L-3 Communications Aeromet, Inc.
L-3 Communications AIS GP Corporation
L-3 Communications Integrated Systems L.P. (1%+99%)
L-3 Communications Vertex Aerospace LLC
Army Fleet Support, LLC (40% +40%)
J-R Technical Management, L.L.C. (50%)
J-R Technical Services Limited Partnership, L.L.P.
(49.5%+1%*50%)
L-3 Communications Flight Capital LLC
L-3 Communications Flight International Aviation LLC
L-3 Communications Vector International Aviation LLC
L3 Communications Australia Proprietary Limited
L-3 Communications Australia Pty Ltd
L-3 Communications Avionics Systems, Inc.
L-3 Communications AVISYS Corporation
L-3 Communications Aydin Corporation
Aydin Foreign Sales Limited
Aydin S.A. (19%)
L-3 Communications Global Network Solutions U.K. Ltd.
L-3 Communications Investments Inc.
Aydin Yazilim ve Elektronik Sanayi A.S. (100%)
L-3 Communications Canada Inc.
L-3 Communications MAS (Canada) Inc.
Spar Aerospace Limited

L-3 Communications Holdings, Inc. and Subsidiaries — (continued)
As of December 31, 2004

International Aerospace Management Company Srl (20%)
Sovcan Star Satellite Communications Inc. (34%)
L-3 Communications ESSCO, Inc.
Electronic Space Systems International Corp.
ESSCO Collins Limited (99.99%)
L-3 Communications Government Services, Inc.
D.P. Associates, Inc.
L-3 Communications Holding GmbH
ELAC Nautik Unterstützungskasse GmbH
Power Paragon (Deutschland) Holding GmbH (99% +1%)
EuroAtlas Gesellschaft für Leistungselektronik mbH
JovyAtlas Elektrische Umformtechnik GmbH (99% +1%)
Astrid Energy Enterprises S.R.L (10%)
Narda Safety Test Solutions GmbH
PMM Costuzioni Electroniche Centro Misure Radioelettriche

S.r.l. (98%)

EMC S.r.l. (33%)
L-3 Communications Hong Kong Limited
L-3 Communications ILEX Systems, Inc.
L-3 Communications Klein Associates, Inc.
L-3 Communications Korea Corporation
L-3 Communications Malaysia Sdn. Bhd.
L-3 Communications MAS (US) Corporation
L-3 Communications Security and Detection Systems, Inc.
L-3 Communications Singapore Pte Ltd.
L-3 Communications Storm Control Systems, Inc.
L-3 Communications U.K. Ltd.
Storm Control Systems Limited
L-3 Communications Westwood Corporation

L-Tres Comunicaciones Cost Rica, S.A.
Medical Education Technologies, Inc. (47.5%)
Microdyne Corporation
 Microdyne Communications Technologies Incorporated
 MCTI Acquisition Corporation
 Apcom, Inc.
 L-3 Communications CSI, Inc.
Microdyne Ltd.
Microdyne Outsourcing Incorporated
MPRI, Inc.
 Civilian Police International, LLC (30%)
 Civilian Police International, Ltd. (30%)
Ship Analytics, Inc.
 Ship Analytics International, Inc.
 Ship Analytics USA, Inc.
MVT Equity LLC (33.3%)
New SI, LLC
PacOrd Inc.
Power Paragon, Inc.
SPD Electrical Systems, Inc.
SPD Switchgear Inc.
SYColeman Corporation
Wescam Holdings (US) Inc.

L-3 Communications Holdings, Inc. and Subsidiaries — (continued)
As of December 31, 2004

Broadcast Sports Inc.
Troll Technology Corporation
Wescam Incorporated
 Wescam Air Ops Inc.
 Wescam Air Ops LLC
 Wescam Sonoma Inc.
Wescam LLC
Wolf Coach, Inc.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (Nos. 333-84826 and 333-99693) and on Form S-8 (Nos. 333-59218, 333-64389, 333-78317, 333-64300, 333-103752 and 333-120393) of L-3 Communications Holdings, Inc. and subsidiaries of our report dated March 15, 2005 relating to the financial statements, management's assessments of the effectiveness of internal control over financial reporting and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

New York, New York

March 15, 2005

CERTIFICATIONS

I, Frank C. Lanza, certify that:

1. I have reviewed this annual report on Form 10-K of L-3 Communications Holdings, Inc. and L-3 Communications Corporation;
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 registrants as of, and for, the periods presented in this report;
4. The registrants' 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 registrants 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 registrants, including their 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 registrants' 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 registrants' fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and
5. The registrants' other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' 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 registrants' 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 registrants' internal control over financial reporting.

Date: March 15, 2005

/s/ Frank C. Lanza

Frank C. Lanza
Chairman and Chief Executive Officer

CERTIFICATIONS

I, Michael T. Strianese, certify that:

1. I have reviewed this annual report on Form 10-K of L-3 Communications Holdings, Inc. and L-3 Communications Corporation;
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 registrants as of, and for, the periods presented in this report;
4. The registrants' 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 registrants 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 registrants, including their 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 registrants' 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 registrants' internal control over financial reporting that occurred during the registrants' fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrants' internal control over financial reporting; and
5. The registrants' other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrants' auditors and the audit committee of the registrants' 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 registrants' 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 registrants' internal control over financial reporting.

Date: March 15, 2005

/s/ Michael T. Strianese

Michael T. Strianese
Senior Vice President and Chief Financial Officer

**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 Annual Report of L-3 Communications Holdings, Inc. ("L-3 Holdings") and L-3 Communications Corporation ("L-3 Corporation"; together with L-3 Holdings referred to as "L-3") on Form 10-K for the year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of Frank C. Lanza, Chairman and Chief Executive Officer of L-3 Holdings and L-3 Corporation, and Michael T. Strianese, Senior Vice President and Chief Financial Officer of L-3 Holdings and L-3 Corporation, 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 L-3.

/s/ Frank C. Lanza

Frank C. Lanza

Chairman and Chief Executive Officer

March 15, 2005

/s/ Michael T. Strianese

Michael T. Strianese

Senior Vice President and Chief Financial Officer

March 15, 2005
