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L-3 Communications Holdings, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions). Your first question comes from the line of Cai von Rumohr of Cowen and Company.

Cai von Rumohr - Cowen and Company

Government services, could you give us some color on why the margin was lower there than it has been and were you expecting the Intel cutbacks. Can you give us a little more color on that?

Ralph D'Ambrosio

Margins, they are always lower in Q1 than compared to the rest of the year and that is because, due to the calendarization of the quarters, we have less days in Q1 and therefore less services work. Additionally, we are expecting some sales volumes to increase and therefore we will have better absorption on the SG&A side and that should lead to margin expansion.

In terms of the funding cuts on the Intel work, again it was unanticipated and it really happened across several programs and it appears to us that their direction to cut back on several Intel programs coming from Washington or somewhere else I guess. And we also expect to have lower sales on the US army recruiting work and what is happening there is we believe given the situation and the economy the army has achieved their recruiting goals early and therefore they are going to recruit less this year and for that reason they are cutting back out headcount significantly.

We are probably going to have \$15 million less sales there. Then lastly, we are lowering our linguist sales by about \$10 or \$15 million and that is because we are not seeing the work share that we thought we were going to see in the subcontract. So, overall, the margins for the full year, we have just lowered the guidance range by 10 basis points and that is due to the lower volume that I just talked about.

Cai von Rumohr - Cowen and Company

The last one, if you could comment on the project Liberty; how big were the sales in this quarter and what are the opportunities for that business to grow looking-forward?

Mike Strianese

We have limited amount details, we can give you on this program, and I'd rather do it in the context of the whole ISR segment and this is due to customer concerns and I can't understand where that's coming from.

The growth rate in ISR in the first quarter was about 28%. I expect it to continue to be above average for the balance of the year. I can't promise it will be 28% in the second quarter.

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