

L 3 COMMUNICATIONS HOLDINGS INC
Form DEF 14A
March 23, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

L-3 COMMUNICATIONS HOLDINGS, INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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1. Title of each class of securities to which transaction applies:
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1. Amount Previously Paid:
2. Form, Schedule or Registration Statement No.:
3. Filing Party:
4. Date Filed:

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Notice of
Annual Meeting
2016 of Shareholders
and Proxy
Statement

L-3 Communications

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L-3 Communications
600 Third Avenue
New York, NY 10016

Dear Fellow Shareholder:

On behalf of the Board of Directors, I cordially invite you to attend the Annual Meeting of Shareholders of L-3 Communications Holdings, Inc., to be held at 2:30 p.m., Eastern Daylight Time, on Tuesday, May 3, 2016, at The Ritz-Carlton New York, Battery Park, located at Two West Street, New York, New York 10004. The notice and proxy statement for the Annual Meeting are attached to this letter and describe the business to be conducted at the Annual Meeting.

At this year's meeting, we will vote on the election of 10 directors, the ratification of the selection of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm, the approval, in a non-binding, advisory vote, of the compensation paid to our named executive officers, the approval of an amendment and restatement to the L-3 Communications Holdings, Inc. Amended and Restated 2008 Long Term Performance Plan, the adoption of a merger agreement to eliminate our holding company structure, and, if properly presented, one shareholder proposal. There also will be a report on the Company's business, and shareholders will have an opportunity to ask questions.

In accordance with the rules of the Securities and Exchange Commission, we sent a Notice of Internet Availability of Proxy Materials on or about March 23, 2016 to our shareholders of record as of the close of business on March 7, 2016. We also provided access to our proxy materials over the Internet beginning on that date. If you received a Notice of Internet Availability of Proxy Materials by mail and did not receive, but would like to receive, a printed copy of our proxy materials, you should follow the instructions for requesting such materials included on page 6 of this proxy statement or in the Notice of Internet Availability of Proxy Materials.

To have your vote recorded, you should vote over the Internet or by telephone. In addition, if you have requested or received a paper copy of the proxy materials, you may vote by signing, dating and returning the proxy card sent to you in the envelope accompanying the proxy materials sent to you. We encourage you to vote by any of these methods even if you currently plan to attend the Annual Meeting. By doing so, you will ensure that your shares are represented and voted at the Annual Meeting. If you decide to attend, you can still vote your shares in person if you wish. If you wish to attend the Annual Meeting in person, you will need to register and request an admission ticket in advance. You can register and request a ticket by following the instructions set forth on page 10 of this proxy statement.

On behalf of the Board of Directors, I thank you for your cooperation and look forward to seeing you on May 3, 2016.

March 23, 2016

Very truly yours,

Michael T. Strianese

Chairman and Chief Executive Officer

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L-3 Communications

**NOTICE OF 2016 ANNUAL MEETING OF
SHAREHOLDERS OF L-3 COMMUNICATIONS HOLDINGS, INC.**

DATE AND TIME: Tuesday, May 3, 2016 at 2:30 p.m., Eastern Time

PLACE: The Ritz-Carlton New York, Battery Park
Two West Street
New York, New York 10004

- ITEMS OF BUSINESS:**
- 1) To elect the 10 Directors listed in the accompanying proxy statement (the Proxy Statement);
 - 2) To ratify the appointment of our independent registered public accounting firm for 2016 (the Auditor Ratification Proposal);
 - 3) To approve, in a non-binding, advisory vote, the compensation paid to our named executive officers as described herein (the Say-on-Pay Proposal);
 - 4) To approve an amendment to the L-3 Communications Holdings, Inc. Amended and Restated 2008 Long Term Performance Plan (the Amended and Restated Plan Proposal);
 - 5) To adopt an Agreement and Plan of Merger effecting the elimination of our holding company structure as described herein (the Merger Proposal);
 - 6) To consider a shareholder proposal to amend and restate the Company's Amended and Restated Certificate of Incorporation (the Certificate of Incorporation) to permit shareholders to take action by written consent (the Shareholder Written Consent Proposal); and
 - 7) To transact such other business as may properly come before the Annual Meeting and any adjournments or postponements thereof.

WHO CAN VOTE: You are entitled to vote if you were a shareholder of record at the close of business on Monday, March 7, 2016 (the Record Date).

VOTING: We urge you to participate in the meeting, either by attending and voting in person or by voting through other acceptable means as promptly as possible. You may vote by telephone, through the Internet or by mailing your completed and signed proxy card (or voting instruction form, if you hold your shares through a broker, bank or other nominee). Each share is entitled to one vote on each matter to be voted upon at the annual meeting. Your vote is important and we urge you to vote.

MEETING ADMISSION: If you plan to attend the meeting, you must request an admission ticket in advance. To request an admission ticket, please follow the instructions on page 10 in response to Question 16 of the accompanying Proxy Statement.

2015 ANNUAL REPORT: A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 accompanies this Proxy Statement.

DATE OF DISTRIBUTION: This Notice, the Proxy Statement and proxy card are first being made available or mailed to shareholders on or about March 23, 2016.

By Order of the Board of Directors

Steven M. Post
Senior Vice President, General Counsel and

March 23, 2016

New York, New York

Corporate Secretary

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 3, 2016.

The following proxy materials are available for you to view online at <http://www.L-3com.com>: (1) this Proxy Statement (including all attachments, if any); (2) our Summary Annual Report and Annual Report on Form 10-K, in each case for the year ended December 31, 2015 (which is not deemed to be part of the official proxy soliciting materials); and (3) any amendments to the foregoing materials that are required to be furnished to shareholders. In addition, if you have not received a copy of our proxy materials and would like one, you may download an electronic copy of our proxy materials or request a paper copy at <http://www.L-3com.com>. You will also have the opportunity to request paper or email copies of our proxy materials for all future Annual Meetings.

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This summary highlights information about L-3 Communications Holdings, Inc. (the Company, L-3, we, our or us) and certain information contained elsewhere in this Proxy Statement for L-3's 2016 Annual Meeting of Shareholders (the Annual Meeting or the meeting). This summary does not contain all of the information that you should consider in voting your shares of L-3 common stock, par value \$0.01 per share (the Common Stock). You should read the entire Proxy Statement carefully before voting.

VOTING MATTERS AND BOARD RECOMMENDATIONS

Proposal	Board Vote Recommendation	Page Reference
Proposal 1 Election of Directors	FOR	11
Proposal 2 Auditor Ratification Proposal	FOR	17
Proposal 3 Say-on-Pay Proposal	FOR	18
Proposal 4 Amended and Restated Plan Proposal	FOR	20
Proposal 5 Merger Proposal	FOR	28
Proposal 6 Shareholder Written Consent Proposal	NONE	33

CASTING YOUR VOTE

How to Vote	Shareholders of Record (Shares registered in your name with L-3's transfer agent, Computershare)	Street Name Holders (Shares held through a Broker, Bank or Other Nominee) and 401(k) Participants
Mobile Device Scan the QR Code to vote using your mobile device:		Refer to voting instruction form.
Internet Visit the applicable voting website:	www.proxyvote.com	www.proxyvote.com
Telephone Within the United States, U.S. Territories and Canada, call toll-free:	1-800-690-6903	Refer to voting instruction form.
Mail Complete, sign and mail your proxy card or voting instruction form in the self-addressed envelope provided to you, following your request, if any.		

In Person

For instructions on attending the 2016 Annual Meeting in person, please see Question 16 on page 10.

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PROXY STATEMENT SUMMARY

BOARD NOMINEES

You are being asked to vote on the following ten nominees for director. All directors are elected annually by a majority of the votes cast. Information about each director's experiences, qualifications, attributes and skills can be found beginning on page 11.

Director			Board	Committee	
Name	Age	Since	Principal Occupation	Independent	Membership*
Claude R. Canizares	70	2003	Vice President and Bruno Rossi Professor of Physics, Massachusetts Institute of Technology	Yes	AC
Thomas A. Corcoran	71	1997	Senior Advisor, The Carlyle Group and President, Corcoran Enterprises, LLC	Yes	AC
Ann E. Dunwoody	63	2013	General (Ret.), U.S. Army	Yes	NC
Lewis Kramer	68	2009	Retired Partner, Ernst & Young LLP	Yes	AC, CC, EC
Robert B. Millard	65	1997	Chairman, Massachusetts Institute of Technology Corporation	Yes	CC, EC
Lloyd W. Newton	73	2012	General (Ret.), U.S. Air Force and Retired Executive Vice President, Pratt & Whitney Military Engines.	Yes	CC
Vincent Pagano, Jr.	65	2013	Retired Partner, Simpson Thacher & Bartlett LLP	Yes	AC, NC, EC
H. Hugh Shelton	74	2011	General (Ret.), U.S. Army	Yes	NC
Arthur L. Simon	84	2001	Retired Partner, Coopers & Lybrand LLP	Yes	AC, NC
Michael T. Strianese	60	2006	Chairman and CEO, L-3	No	EC

* AC Audit Committee NC Nominating/Corporate Governance Committee

CC Compensation Committee EC Executive Committee

CORPORATE GOVERNANCE HIGHLIGHTS

<ul style="list-style-type: none"> ┆ Annual election of directors 	<ul style="list-style-type: none"> ┆ Shareholder right to call special meetings 	<ul style="list-style-type: none"> ┆ Strong pay-for-performance philosophy
<ul style="list-style-type: none"> ┆ Directors elected by majority voting 	<ul style="list-style-type: none"> ┆ Over 75% average Board and Committee meeting attendance for each director in 2015 	<ul style="list-style-type: none"> ┆ Comprehensive political contributions disclosure policy and compliance program
<ul style="list-style-type: none"> ┆ 9 of our 10 director nominees are independent 	<ul style="list-style-type: none"> ┆ Annual Board and Committee self-evaluations 	<ul style="list-style-type: none"> ┆ Board participation in executive succession planning
<ul style="list-style-type: none"> ┆ Independent lead director 	<ul style="list-style-type: none"> ┆ Comprehensive code of ethics and business conduct and corporate governance guidelines 	<ul style="list-style-type: none"> ┆ Stock ownership guidelines for directors and executive officers
<ul style="list-style-type: none"> ┆ All NYSE-required Board committees consist solely of independent directors 	<ul style="list-style-type: none"> ┆ No shareholder rights plan or poison pill 	<ul style="list-style-type: none"> ┆ Policy prohibiting hedging or pledging
<ul style="list-style-type: none"> ┆ Regular executive sessions of independent directors 		<ul style="list-style-type: none"> ┆ Compensation clawback policy

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PROXY STATEMENT SUMMARY

SHAREHOLDER ENGAGEMENT

In recent years, the Company has made a concerted effort to engage with its shareholders both during and outside the proxy season. In 2015, these outreach efforts resulted in dialogue with shareholders representing over 52% of the Company's outstanding Common Stock to solicit their input on a wide range of topics, including executive compensation, business strategy, portfolio shaping, capital allocation and financing strategy, and other strategic, financial, and governance-related matters. In addition, during 2015, our Lead Independent Director, Robert B. Millard, met with some of our largest shareholders.

In 2015, a shareholder proposal recommending that we amend our Amended and Restated Bylaws (the Bylaws) to permit shareholders owning 20% or more of the Company's outstanding Common Stock to call a special meeting of shareholders (the Proposal) received support from 61% of the shares voted on the Proposal. Following its initial review of the vote on the Proposal, the Board concluded that it would be appropriate to amend the Bylaws to enable shareholders representing at least 20% of the outstanding Common Stock to call a special meeting. The Board determined, however, that although the Proposal was silent as to any required holding period, it would also be appropriate to include a one-year holding period to ensure that this important right could only be exercised by shareholders with the long-term best interests of the Company in mind.

The Board then directed management to reach out to its top 50 shareholders representing approximately 64% of the Company's outstanding Common Stock to solicit their input with regard to the implementation of this proposed bylaw amendment, particularly with respect to the ownership threshold and a required holding period. We spoke to our top ten shareholders representing approximately 40% of the Company's outstanding Common Stock. Eight of our top ten shareholders, representing 37% of our outstanding Common Stock, were comfortable with a 20% threshold and also supported the Board's views that a one-year holding period was in the best interest of the Company and its shareholders. As a matter of policy, two of our top ten shareholders stated they could not express a definitive view with respect to the Company's approach. Out of the top 50 shareholders that we were able to speak to, only one (representing less than 1% of our outstanding Common Stock) expressed a view against a one-year holding period. Of the eight of our top ten shareholders that supported the Company's proposed response to the Proposal, at the 2015 Annual Meeting, five voted in favor of the Proposal, one represented a fund complex where certain funds voted for the Proposal and certain funds voted against the Proposal and two voted against the Proposal.

After considering the results of the outreach program, the Board determined to amend the Bylaws to permit shareholders owning at least 20% of our outstanding Common Stock to call a special meeting, provided they meet the one-year holding period requirement.

Our Investor Relations department is the contact point for shareholder interaction with the Company. Shareholders may also access investor information about the Company through our website at www.L-3com.com/investor-relations.

SUMMARY OF 2015 BUSINESS PERFORMANCE

- i Our electronic systems and communication systems segments achieved solid operational and financial performance that exceeded their segment plans. However, our overall performance was adversely affected

by losses on Head-of-State aircraft modification contracts in our aerospace systems segment, and sales and margin declines in our national security solutions and logistics solutions businesses. Accordingly, our diluted earnings per share and free cash flow performance fell below our annual incentive plan targets by 5% and 3%, respectively, and we further incurred substantial non-cash goodwill impairment charges.

- i We undertook significant strategic actions to reshape our business portfolio for future success. In December 2015, we agreed to sell our national security solutions segment for approximately \$550 million, and completed the sale in February 2016. We also completed three acquisitions and four divestitures in 2015, including the sale of Marine Systems International for approximately 295 million. We believe these actions sharpen our focus on L-3's core businesses, improve our competitive position, and strengthen our ability to achieve future sales growth and margin expansion.

- i We repurchased \$740 million of our Common Stock and paid dividends of \$214 million following our 11th consecutive annual dividend increase, returning over \$950 million of cash to our shareholders in 2015. We also repaid approximately \$300 million of our outstanding debt.

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PROXY STATEMENT SUMMARY

- We strengthened the Company's senior executive management team by appointing Christopher E. Kubasik to the new position of President and Chief Operating Officer, and Mark Von Schwarz as President of our aerospace systems segment.
- We remediated the Company's material weaknesses in its internal controls over financial reporting, which were identified in 2014 following an internal review of financial reporting matters at our aerospace systems segment discussed in last year's proxy statement.
- Our total shareholder return (TSR) for the three years ended December 31, 2015 was 67%, which fell below the minimum TSR-based performance goal relative to our peer companies under our long-term incentive plan, but compares favorably to the 53% TSR of the S&P 500 Index for this period.

For more information regarding L-3's 2015 performance, please review our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

EXECUTIVE COMPENSATION PROGRAM SUMMARY

2015 Target Pay and Incentive Plan Payouts

- We target base salaries and annual and long-term incentive opportunities for our executive officers named in the Summary Compensation Table on page 68 (named executive officers or NEOs) to approximate market median compensation levels, subject to adjustments based on experience, performance, other individual factors and as otherwise appropriate. For 2015, the target pay for each of our NEOs was within a competitive range that approximates 85% to 115% of market median.
- Calculated annual incentive plan payouts for 2015 reflect our 2015 business performance, and were below target for our corporate NEOs, but above target for our group NEOs who serve as the presidents of our segments that exceeded their respective financial plans for the year. Notwithstanding the formula-based calculation of these payouts, after considering all aspects of the Company's financial performance for 2015 including the non-cash goodwill impairment charges described above, management recommended and the Committee agreed that the calculated payouts should be reduced substantially for the corporate NEOs, and to a lesser degree for the group NEOs. Similarly, payouts under our long-term performance awards were substantially below target.

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PROXY STATEMENT SUMMARY

Key Governance Features of Our Executive Compensation Program

At the 2015 Annual Meeting, more than 92% of the votes cast approved, on a non-binding advisory basis, the compensation of our NEOs, demonstrating the effectiveness of the substantive changes made to our compensation program over the past several years in response to shareholder feedback. The following summary highlights our commitment to executive compensation practices that reinforce our pay-for-performance culture and includes corporate governance practices that are considered by investors to reflect market best practices:

What We Do	What We Don't Do
Pay-for-Performance Emphasis on long-term, performance-based compensation and meaningful stock ownership guidelines to align executive and shareholder interests	No Employment Agreements All of our NEOs are employed on an at-will basis
Formula-Based Incentive Plans Transparent, formulaic incentive plans designed to promote short- and long-term business success	No Tax Gross-ups No excise tax gross-ups on severance or change in control payments
Enhanced CEO Performance Conditions Chief Executive Officer's stock options are subject to performance conditions based on consolidated EPS and FCF	No Repricing No repricing of stock options or other equity-based awards without shareholder approval
Clawback Provisions Clawback policy that applies to all incentive compensation, including equity-based awards	No Pension Plan/SERP Credit No pension plan/SERP credit for years not worked with L-3 or its predecessor companies
Double Trigger for Severance Double trigger provisions for severance payable in the event of a change in control, and no excessive severance or change in control provisions	No Excessive Perquisites Perquisites are modest and consistent with competitive practices
Annual Risk Assessment Annual compensation risk assessment to ensure program does not encourage excessive risk-taking	No Dividends on Stock Options No payment of dividends on stock options or on other equity-based awards prior to vesting
Tally Sheets Tally sheet analysis to better understand current and accumulated compensation and benefits	