HARRIS CORP /DE/
Form 10-Q
October 27, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

or

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

For the transition period from ______ to ______

Commission File Number: 1-3863

HARRIS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**34-0276860**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1025 West NASA Boulevard	
Melbourne, Florida	**32919**
(Address of principal executive offices)	**(Zip Code)**

(321) 727-9100

(Registrant s telephone number, including area code)

No changes

(Former name, former address and former fiscal year, if changed since last report)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

The number of shares outstanding of the registrant s common stock as of October 21, 2011 was 115,804,070 shares.

Table of Contents

HARRIS CORPORATION

FORM 10-Q

For the Quarter Ended September 30, 2011

INDEX

This Quarterly Report on Form 10-Q contains trademarks, service marks and registered marks of Harris Corporation and its subsidiaries.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HARRIS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

	Quarter Ended	
	September 30, 2011	October 1, 2010
	(In millions, except per share amounts)	
Revenue from product sales and services	$ 1,460.3	$ 1,405.4
Cost of product sales and services	(966.7)	(881.1)
Engineering, selling and administrative expenses	(290.9)	(255.2)
Non-operating income (loss)	0.7	(0.4)
Interest income	0.9	0.6
Interest expense	(28.0)	(17.8)
Income before income taxes	176.3	251.5
Income taxes	(55.2)	(87.6)
Net income	121.1	163.9
Noncontrolling interests, net of income taxes	0.5	
Net income attributable to Harris Corporation	$ 121.6	$ 163.9
Net income per common share attributable to Harris Corporation common shareholders		
Basic	$ 1.01	$ 1.28
Diluted	$ 1.01	$ 1.27
Cash dividends paid per common share	$ 0.28	$ 0.25
Basic weighted average common shares outstanding	118.8	126.8
Diluted weighted average common shares outstanding	119.4	127.7

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

HARRIS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	September 30, 2011	July 1, 2011
	(In millions, except shares)	
Assets		
Current Assets		
Cash and cash equivalents	$ 305.4	$ 366.9
Receivables	920.7	836.5
Inventories	690.5	720.8
Income taxes receivable	16.2	57.3
Current deferred income taxes	163.9	171.0
Other current assets	85.5	64.3
Total current assets	2,182.2	2,216.8
Non-current Assets		
Property, plant and equipment	906.0	872.8
Goodwill	2,363.3	2,381.4
Intangible assets	477.7	502.4
Non-current deferred income taxes	30.0	5.7
Other non-current assets	171.8	193.7
Total non-current assets	3,948.8	3,956.0
	$ 6,131.0	$ 6,172.8
Liabilities and Equity		
Current Liabilities		
Short-term debt	$ 561.0	$ 180.0
Accounts payable	409.1	450.8
Compensation and benefits	179.7	266.2
Other accrued items	322.9	295.8
Advance payments and unearned income	228.9	232.8
Income taxes payable	19.7	
Current portion of long-term debt	4.4	4.9
Total current liabilities	1,725.7	1,430.5
Non-current Liabilities		
Non-current deferred income taxes	23.1	
Long-term debt	1,886.8	1,887.2
Long-term contract liability	118.9	120.9
Other long-term liabilities	207.5	222.2
Total non-current liabilities	2,236.3	2,230.3
Equity		
Shareholders Equity:		
Preferred stock, without par value; 1,000,000 shares authorized; none issued		
Common stock, $1.00 par value; 500,000,000 shares authorized; issued and outstanding 112,950,028 shares at September 30, 2011 and 123,118,804 shares at July 1, 2011	113.0	123.1
Other capital	398.7	471.2

Retained earnings	1,666.4	1,889.0
Accumulated other comprehensive income (loss)	(18.6)	18.7
Total shareholders equity	2,159.5	2,502.0
Noncontrolling interests	9.5	10.0
Total equity	2,169.0	2,512.0
	$ 6,131.0	$ 6,172.8

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

HARRIS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(Unaudited)

	Quarter Ended September 30, 2011	Quarter Ended October 1, 2010
	(In millions)	
Operating Activities		
Net income	$ 121.1	$ 163.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	63.3	46.8
Share-based compensation	9.3	16.0
Non-current deferred income taxes	(0.2)	1.3
(Increase) decrease in:		
Accounts and notes receivable	(83.9)	68.2
Inventories	32.2	(20.3)
Increase (decrease) in:		
Accounts payable and accrued expenses	(119.4)	(55.9)
Advance payments and unearned income	(3.8)	11.7
Income taxes	61.0	76.7
Other	(0.9)	(13.5)
Net cash provided by operating activities	78.7	294.9
Investing Activities		
Net cash paid for acquired businesses		(518.0)
Cash paid for cost-method investment		(10.0)
Additions of property, plant and equipment	(77.4)	(37.1)
Additions of capitalized software	(4.5)	(4.3)
Net cash used in investing activities	(81.9)	(569.4)
Financing Activities		
Proceeds from borrowings	380.5	244.1
Repayments of borrowings	(0.4)	
Proceeds from exercise of employee stock options	2.9	2.6
Repurchases of common stock	(406.2)	(55.5)
Cash dividends	(32.6)	(32.2)
Net cash provided by (used in) financing activities	(55.8)	159.0
Effect of exchange rate changes on cash and cash equivalents	(2.5)	1.7
Net decrease in cash and cash equivalents	(61.5)	(113.8)
Cash and cash equivalents, beginning of year	366.9	455.2
Cash and cash equivalents, end of quarter	$ 305.4	$ 341.4

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 2011

Note A Significant Accounting Policies and Recent Accounting Standards

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Harris Corporation and its subsidiaries. As used in these Notes to Condensed Consolidated Financial Statements (Unaudited) (these Notes), the terms Harris, Company, we, our, and us refe Harris Corporation and its consolidated subsidiaries. Intercompany transactions and accounts have been eliminated. The accompanying condensed consolidated financial statements have been prepared by Harris, without an audit, in accordance with U.S. generally accepted accounting principles for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, such interim financial statements do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. In the opinion of management, such interim financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented therein. The results for the quarter ended September 30, 2011 are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet at July 1, 2011 has been derived from the audited financial statements but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for annual financial statements. We provide complete financial statements in our Annual Report on Form 10-K, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q (this Report) should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations, and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 1, 2011 (the Fiscal 2011 Form 10-K).

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts reported in the accompanying condensed consolidated financial statements and these Notes. Actual results could differ from those estimates and assumptions.

Accounting Standards Issued But Not Yet Effective

In May 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update that generally aligns the principles for fair value measurements and related disclosure requirements under U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments in this update include clarifications of the FASB s intent about the application of existing fair value measurements and disclosure requirements and changes to particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. Expanded disclosure requirements include disclosures of all transfers between Levels 1 and 2 of the fair value hierarchy, disclosure of the hierarchy classification for items whose fair value is not recorded on the balance sheet but is disclosed in the notes, and various quantitative and qualitative disclosures pertaining to Level 3 measurements. This update is to be applied prospectively and is effective for interim and annual reporting periods beginning after December 15, 2011, which for us is our third quarter of fiscal 2012. We do not currently anticipate that the adoption of this update will materially impact our financial position, results of operations or cash flows.

In June 2011, the FASB issued an accounting standards update that requires entities to present components of net income, components of other comprehensive income (OCI) and total comprehensive income in one continuous statement or two separate but consecutive statements. Entities will no longer be allowed to present OCI in the statement of equity. Additionally, this update requires entities to present on the face of the financial statements reclassification adjustments for items that are reclassified from OCI to net income in the statement(s) where the components of net income and OCI are presented. This update is to be applied retrospectively and is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2011, which for us is our fiscal 2013. The adoption of this update will not impact our financial position, results of operations or cash flows.

In September 2011, the FASB issued an accounting standards update that simplifies how entities test goodwill for impairment. This update gives entities the option to assess qualitative factors first, to determine whether it is necessary to perform the two-step quantitative goodwill impairment test for their reporting units. Under this update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not (a likelihood of more than 50 percent) that its fair value is less than its carrying amount. Additionally, this update includes examples of events and circumstances that an entity should consider in conducting the qualitative assessment. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which for us is our fiscal 2013. Early adoption is permitted. The adoption of this update will not impact our financial position, results of operations or cash flows.

Table of Contents

Note B Stock Options and Other Share-Based Compensation

As of September 30, 2011, we had two shareholder-approved employee stock incentive plans (SIPs) under which options or other share-based compensation was outstanding, and we had the following types of share-based awards outstanding under our SIPs: stock options, performance share awards, performance share unit awards, restricted stock awards and restricted stock unit awards. We believe that such awards more closely align the interests of employees with those of shareholders. Certain share-based awards provide for accelerated vesting if there is a change in control (as defined under our SIPs). The compensation cost related to our share-based awards that was charged against income was $9.3 million for the quarter ended September 30, 2011 and $16.0 million for the quarter ended October 1, 2010.

Grants to employees under our SIPs during the quarter ended September 30, 2011 consisted of 1,452,750 stock options, 132,200 performance share unit awards and 308,300 restricted stock unit awards. The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton option-pricing model which used the following assumptions: expected volatility of 34.63 percent; expected dividend yield of 2.24 percent; and expected life in years of 5.10.

Note C Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Comprehensive income for the quarters ended September 30, 2011 and October 1, 2010 was comprised of the following:

	Quarter Ended	
	September 30, 2011	October 1, 2010
	(In millions)	
Net income	$ 121.1	$ 163.9
Other comprehensive income (loss):		
Foreign currency translation	(39.4)	10.5
Net unrealized gain (loss) on hedging derivatives, net of income taxes	0.4	(0.4)
Net unrealized gain (loss) on securities available-for-sale, net of income taxes	0.4	(0.9)
Amortization of loss on treasury lock, net of income taxes	0.1	0.2
Recognition of pension actuarial losses in net income, net of income taxes	1.2	0.1
Total comprehensive income	83.8	173.4
Comprehensive loss attributable to noncontrolling interests	0.5	
Total comprehensive income attributable to Harris Corporation	$ 84.3	$ 173.4

The components of accumulated other comprehensive income (loss) at September 30, 2011 and July 1, 2011 were as follows:

	September 30, 2011	July 1, 2011
	(In millions)	
Foreign currency translation	$ 11.4	$ 50.8
Net unrealized gain (loss) on hedging derivatives, net of income taxes	0.3	(0.1)
Net unrealized gain on securities available-for-sale, net of income taxes	1.5	1.1
Unamortized loss on treasury lock, net of income taxes	(3.4)	(3.5)
Unrecognized pension obligations, net of income taxes	(28.4)	(29.6)
	$ (18.6)	$ 18.7

Table of Contents

Note D Receivables

Receivables are summarized below:

	September 30, 2011	July 1, 2011
	(In millions)	
Accounts receivable	$ 793.2	$ 703.4
Unbilled costs on cost-plus contracts	132.7	138.5
Notes receivable due within one year, net	4.8	6.5
	930.7	848.4
Less allowances for collection losses	(10.0)	(11.9)
	$ 920.7	$ 836.5

Note E Inventories

Inventories are summarized below:

	September 30, 2011	July 1, 2011
	(In millions)	
Unbilled costs and accrued earnings on fixed-price contracts	$ 370.9	$ 381.0
Finished products	119.0	137.2
Work in process	52.9	60.1
Raw materials and supplies	147.7	142.5
	$ 690.5	$ 720.8

Unbilled costs and accrued earnings on fixed-price contracts were net of progress payments of $96.1 million at September 30, 2011 and $85.1 million at July 1, 2011.

Note F Property, Plant and Equipment

Property, plant and equipment are summarized below:

	September 30, 2011	July 1, 2011
	(In millions)	
Land	$ 14.6	$ 14.6
Software capitalized for internal use	116.1	121.0
Buildings	503.9	493.4
Machinery and equipment	1,148.9	1,087.4
	1,783.5	1,716.4
Less allowances for depreciation and amortization	(877.5)	(843.6)
	$ 906.0	$ 872.8

Depreciation and amortization expense related to property, plant and equipment for the quarters ended September 30, 2011 and October 1, 2010 was $39.4 million and $29.9 million, respectively.

Note G Credit Arrangements

On September 27, 2011, we entered into the First Amendment to 364-Day Revolving Credit Agreement (the First Amendment) that renews and amends the senior unsecured credit facility we had with a syndicate of lenders under the 364-Day Revolving Credit Agreement, dated as of September 29, 2010 (the 364-Day Credit Agreement). Pursuant to the 364-Day Credit Agreement, and immediately prior to the First Amendment, we provided notice to the administrative agent of a permanent reduction of the commitments under the 364-Day Credit Agreement from $300 million to $250 million. As amended by the First Amendment, the 364-Day Credit Agreement (the Amended 364-Day Credit Agreement) provides for the extension of credit to us in the form of revolving loans at any time and from time to time during the term of the Amended 364-Day Credit Agreement, in an aggregate principal amount at any time outstanding not to exceed $250 million. Borrowings under the Amended 364-Day Credit Agreement will be denominated in U.S. Dollars. The Amended 364-Day Credit Agreement may be used for working capital and other general corporate purposes (excluding hostile acquisitions) and also may be used to support any commercial paper that we may issue.

At our election, borrowings under the Amended 364-Day Credit Agreement will bear interest either at LIBOR plus an applicable margin or at the base rate plus an applicable margin. The interest rate margin over LIBOR, initially set at 1.25 percent, may increase (to a maximum amount of 1.75 percent) or decrease (to a minimum amount of 0.75 percent) based on changes in the ratings of our senior unsecured long-term debt securities (Senior Debt Ratings). The base rate is a fluctuating rate equal to the highest of (i) the federal funds rate plus 0.50 percent, (ii) SunTrust Bank s publicly announced prime lending rate for U.S. Dollars or (iii) LIBOR for an interest period of one month plus 1.00 percent. The interest rate margin over the base rate, initially set at 0.25 percent, may increase (to a maximum amount of 0.75 percent) or decrease (to a minimum amount of 0.00 percent) based on our Senior Debt Ratings.

The Amended 364-Day Credit Agreement contains certain customary covenants, including covenants limiting: certain liens on our assets; certain mergers, consolidations or sales of assets; certain sale and leaseback transactions; certain vendor financing investments; and certain investments in unrestricted subsidiaries. The Amended 364-Day Credit Agreement also requires that we not permit our ratio of consolidated total indebtedness to total capital, each as defined, to be greater than 0.60 to 1.00 and not permit our ratio of consolidated EBITDA to consolidated net interest expense, each as defined, to be less than 3.00 to 1.00 (measured on the last day of each fiscal quarter for the rolling four-quarter period then ending). We were in compliance with the covenants in the Amended 364-Day Credit Agreement in the first quarter of fiscal 2012. The Amended 364-Day Credit Agreement contains certain events of default, including: failure to make payments; failure to perform or observe terms, covenants and agreements; material inaccuracy of any representation or warranty; payment default under other indebtedness with a principal amount in excess of $75 million, other default under such other indebtedness that permits acceleration of such indebtedness, or acceleration of such other indebtedness; occurrence of one or more final judgments or orders for the payment of money in excess of $75 million that remain unsatisfied; incurrence of certain ERISA liability in excess of $75 million; any bankruptcy or insolvency; or a change of control, including if a person or group becomes the beneficial owner of 25 percent or more of our voting stock. If an event of default occurs the lenders may, among other things, terminate their commitments and declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees. All amounts borrowed or outstanding under the Amended 364-Day Credit Agreement are due and mature on September 26, 2012, unless the commitments are terminated earlier either at our request or if certain events of default occur. At September 30, 2011, we had no borrowings outstanding under the Amended 364-Day Credit Agreement.

We had short-term debt at September 30, 2011 and July 1, 2011 of $561.0 million and $180.0 million, respectively, which consisted primarily of commercial paper outstanding under our commercial paper program that was supported by our senior unsecured revolving credit facility under the 2008 Credit Agreement (as defined in the Capital Structure and Resources discussion in Part I. Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Report). Our short-term debt at July 1, 2011 was primarily due to commercial paper issued to fund a portion of the purchase price for our acquisitions of the Global Connectivity Services business of the Schlumberger group (Schlumberger GCS) and Carefx Corporation (Carefx) during the fourth quarter of fiscal 2011. The higher amount of short-term debt at September 30, 2011 was primarily due to commercial paper issued to fund repurchases we made under our new share repurchase program during the first quarter of fiscal 2012.

For a description of our other credit arrangements, including our $750 million senior unsecured revolving credit facility, see the Capital Structure and Resources discussion in Part I. Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Report. For further information on our share repurchases under our share repurchase program, see the Common Stock Repurchases discussion in Part I. Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in this Report.

Note H Accrued Warranties

Changes in our warranty liability, which is included as a component of the Other accrued items and Other long-term liabilities line items in the accompanying Condensed Consolidated Balance Sheet (Unaudited), during the quarter ended September 30, 2011 were as follows:

	(In millions)
Balance at July 1, 2011	$ 52.8
Warranty provision for sales made during the quarter ended September 30, 2011	4.5
Settlements made during the quarter ended September 30, 2011	(5.3)
Other adjustments to warranty liability, including those for foreign currency translation, during the quarter ended September 30, 2011	(1.1)
Balance at September 30, 2011	$ 50.9

Table of Contents

Note I Net Income Per Share

The computations of net income per share are as follows (in this *Note I*, net income refers to net income attributable to Harris Corporation common shareholders):

	Quarter Ended	
	September 30, 2011	October 1, 2010
	(In millions, except per share amounts)	
Net income	$ 121.6	$ 163.9
Adjustments for participating securities outstanding	(1.4)	(2.0)
Net income used in basic and diluted common share calculations (A)	$ 120.2	$ 161.9
Basic weighted average common shares outstanding (B)	118.8	126.8
Impact of dilutive stock options	0.6	0.9
Diluted weighted average common shares outstanding (C)	119.4	127.7
Net income per basic common share (A)/(B)	$ 1.01	$ 1.28
Net income per diluted common share (A)/(C)	$ 1.01	$ 1.27

Potential dilutive common shares consist of employee stock options. Employee stock options to purchase approximately 4,680,839 and 2,806,312 shares of our common stock were outstanding at September 30, 2011 and October 1, 2010, respectively, but were not included as dilutive stock options in the computations of net income per diluted common share because the effect would have been antidilutive as the options exercise prices exceeded the average market price of our common stock.

Note J Income Taxes

Our effective tax rate (income taxes as a percentage of income before income taxes) was 31.3 percent in the first quarter of fiscal 2012 compared with 34.8 percent in the first quarter of fiscal 2011. In the first quarter of fiscal 2012, our effective tax rate benefited from a reduction in state taxes due to changes in certain state tax laws and a reduction in estimated tax liabilities.

Note K Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal market (or most advantageous market, in the absence of a principal market) for the asset or liability in an orderly transaction between market participants at the measurement date. Entities are required to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value, and to utilize a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included within Level 1, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable or are derived principally from, or corroborated by, observable market data by correlation or other means.

Level 3 Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities, and reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

Table of Contents

The following table represents the fair value hierarchy of our assets and liabilities measured at fair value on a recurring basis (at least annually) as of September 30, 2011:

	Level 1	Level 2	Level 3	Total
		(In millions)		
Assets				
Marketable equity securities (1)	$ 6.2	$	$	$ 6.2
Deferred compensation plan investments: (2)				
Money market fund	31.0			31.0
Stock fund	34.4			34.4
Equity security	12.8			12.8
Foreign currency forward contracts (3)		7.1		7.1
Liabilities				
Deferred compensation plans (4)	79.8			79.8
Foreign currency forward contracts (5)		6.1		6.1

(1) Represents investments classified as securities available-for-sale, which we include in the Other current assets line item in the accompanying Condensed Consolidated Balance Sheet (Unaudited).
(2) Represents investments held in a Rabbi Trust associated with our non-qualified deferred compensation plans, which we include in the Other current assets and Other non-current assets line items in the accompanying Condensed Consolidated Balance Sheet (Unaudited).
(3) Includes derivatives designated as hedging instruments, which we include in the Other current assets line item in the accompanying Condensed Consolidated Balance Sheet (Unaudited). The fair value of these contracts was measured using a market approach based on quoted foreign currency forward exchange rates for contracts with similar maturities.
(4) Primarily represents obligations to pay benefits under certain non-qualified deferred compensation plans, which we include in the Compensation and benefits and Other long-term liabilities line items in the accompanying Condensed Consolidated Balance Sheet (Unaudited). Under these plans, participants designate investment options (including money market, stock and fixed-income funds), which serve as the basis for measurement of the notional value of their accounts.
(5) Includes derivatives designated as hedging instruments, which we include in the Other accrued items line item in the accompanying Condensed Consolidated Balance Sheet (Unaudited). The fair value of these contracts was measured using a market approach based on quoted foreign currency forward exchange rates for contracts with similar maturities.

Assets and liabilities that were measured at fair value on a nonrecurring basis were not material during the quarters ended September 30, 2011 or October 1, 2010.

The following table represents the carrying amounts and estimated fair values of our significant financial instruments that are not measured at fair value (carrying amounts of other financial instruments not listed in the table below approximate fair value due to the short-term nature of those items):

	September 30, 2011		July 1, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
		(In millions)		
Financial Liabilities				
Long-term debt (including current portion) (1)	$ 1,891.2	$ 2,182.0	$ 1,892.1	$ 2,068.4

(1) The estimated fair value was measured using a market approach based on quoted market prices for our debt traded in the secondary market.

Note L Derivative Instruments and Hedging Activities

In the normal course of doing business, we are exposed to global market risks, including the effect of changes in foreign currency exchange rates. We use derivative instruments to manage our exposure to such risks and formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking hedge transactions. We recognize all derivatives in the accompanying Condensed Consolidated Balance Sheet (Unaudited) at fair value. We do not hold or issue derivatives for trading purposes.

At September 30, 2011, we had open foreign currency forward contracts with a notional amount of $79.0 million, of which $18.4 million were classified as fair value hedges and $60.6 million were classified as cash flow hedges. This compares with open foreign currency forward contracts with a notional amount of $83.9 million at July 1, 2011, of which $30.2 million were classified as fair value hedges and $53.7 million were classified as cash flow hedges. At September 30, 2011, contract expiration dates ranged from less than 1 month to 30 months with a weighted average contract life of 6 months.

Table of Contents

Balance Sheet Hedges

To manage the exposure in our balance sheet to risks from changes in foreign currency exchange rates, we implement fair value hedges. More specifically, we use foreign currency forward contracts and options to hedge certain balance sheet items, including foreign currency denominated accounts receivable and inventory. Changes in the value of the derivatives and the related hedged items are reflected in earnings, in the Cost of product sales and services line item in the accompanying Condensed Consolidated Statement of Income (Unaudited). As of September 30, 2011, we had outstanding foreign currency forward contracts denominated in the Euro, British Pound, Canadian Dollar, Australian Dollar and Brazilian Real to hedge certain balance sheet items. The net gains or losses on foreign currency forward contracts designated as fair value hedges for the quarter ended September 30, 2011 were not material. In addition, no amounts were recognized in earnings in the quarter ended September 30, 2011 related to hedged firm commitments that no longer qualify as fair value hedges.

Cash Flow Hedges

To manage our exposure to currency risk and market fluctuation risk associated with anticipated cash flows that are probable of occurring in the future, we implement cash flow hedges. More specifically, we use foreign currency forward contracts and options to hedge off-balance sheet future foreign currency commitments, including purchase commitments from suppliers, future committed sales to customers and intercompany transactions. These derivatives are primarily being used to hedge currency exposures from cash flows anticipated in our RF Communications segment related to programs in the United Kingdom and Canada. We also have hedged U.S. dollar payments to suppliers to maintain our anticipated profit margins in our international operations. As of September 30, 2011, we had outstanding foreign currency forward contracts denominated in the Euro, British Pound and Canadian Dollar to hedge certain forecasted transactions.

These derivatives have only nominal intrinsic value at the time of purchase and have a high degree of correlation to the anticipated cash flows they are designated to hedge. Hedge effectiveness is determined by the correlation of the anticipated cash flows from the hedging instruments and the anticipated cash flows from the future foreign currency commitments through the maturity dates of the derivatives used to hedge these cash flows. These financial instruments are marked-to-market using forward prices and fair value quotes with the offset to other comprehensive income, net of hedge ineffectiveness. Gains and losses from other comprehensive income are reclassified to earnings when the related hedged item is recognized in earnings. The ineffective portion of a derivative s change in fair value is immediately recognized in earnings. The cash flow impact of our derivatives is included in the same category in the accompanying Condensed Consolidated Statement of Cash Flows (Unaudited) as the cash flows of the item being hedged.

The amount of gains or losses from cash flow hedges recognized in earnings or recorded in other comprehensive income, including gains or losses related to hedge ineffectiveness, was not material in the quarters ended September 30, 2011 or October 1, 2010. We do not expect the amount of gains or losses recognized in the Accumulated other comprehensive income (loss) line item in the accompanying Condensed Consolidated Balance Sheet (Unaudited) as of September 30, 2011 that will be reclassified to earnings from other comprehensive income within the next 12 months to be material.

Credit Risk

We are exposed to credit losses in the event of non-performance by counterparties to these financial instruments, but we do not expect any of the counterparties to fail to meet their obligations. To manage credit risks, we select counterparties based on credit ratings, limit our exposure to any single counterparty under defined guidelines and monitor the market position with each counterparty.

See *Note K Fair Value Measurements* in these Notes for the amount of the assets and liabilities related to these foreign currency forward contracts in the accompanying Condensed Consolidated Balance Sheet (Unaudited) as of September 30, 2011, and see *Note C Comprehensive Income and Accumulated Other Comprehensive Income (Loss)* in these Notes for additional information on changes in accumulated other comprehensive income (loss) for the quarter ended September 30, 2011.

Note M Business Segments

We structure our operations primarily around the products and services we sell and the markets we serve, and we report the financial results of our operations in the following three reportable operating or business segments RF Communications, Integrated Network Solutions and Government Communications Systems. Our RF Communications segment is a global supplier of secure tactical radio communications and embedded high-grade encryption solutions for military, government and commercial organizations and also of secure communications systems and equipment for public safety, utility and transportation markets. Our Integrated Network Solutions segment provides mission-critical end-to-end information technology (IT) services; managed satellite and terrestrial communications solutions; standards-based healthcare interoperability and image management solutions; cyber integrated and cloud application hosting solutions; and digital media management solutions to support government, energy, healthcare, enterprise and broadcast customers. Our Government Communications Systems segment conducts advanced research and produces, integrates and supports highly reliable, net-centric communications and information technology that solve the mission-critical challenges of our civilian, defense and intelligence government customers, primarily the U.S. Government. Each business segment is comprised of multiple program areas and product and service lines that aggregate into such business segment.

Table of Contents

The accounting policies of our business segments are the same as those described in Note 1: Significant Accounting Policies in our Fiscal 2011 Form 10-K. We evaluate each segment s performance based on its operating income (loss), which we define as profit or loss from operations before income taxes excluding interest income and expense, royalties and related intellectual property expenses, equity income and gains or losses from securities and other investments. Intersegment sales are generally transferred at cost to the buying segment and the sourcing segment recognizes a profit that is eliminated. The Corporate eliminations line item in the tables below represents the elimination of intersegment sales and their related profits. The Unallocated corporate expense line item in the tables below represents the portion of corporate expenses not allocated to our business segments.

Total assets by business segment are summarized below:

	September 30, 2011	July 1, 2011
	(In millions)	
Total Assets		
RF Communications	$ 1,393.1	$ 1,378.7
Integrated Network Solutions	3,094.1	3,068.7
Government Communications Systems	959.8	956.4
Corporate	684.0	769.0
	$ 6,131.0	$ 6,172.8

Segment revenue, segment operating income and a reconciliation of segment operating income to total income before income taxes follow:

	Quarter Ended	
	September 30, 2011	October 1, 2010
	(In millions)	
Revenue		
RF Communications	$ 497.1	$ 566.5
Integrated Network Solutions	554.2	441.6
Government Communications Systems	443.7	424.1
Corporate eliminations	(34.7)	(26.8)
	$ 1,460.3	$ 1,405.4
Income Before Income Taxes		