

HARRIS CORP /DE/
Form 10-Q
May 08, 2007

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 30, 2007**

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
incorporation or organization)

(I.R.S. Employer 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)

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act (check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

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

The number of shares outstanding of the registrant's common stock as of May 4, 2007 was 134,281,161 shares.

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FORM 10-Q
For the Quarter Ended March 30, 2007
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This Quarterly Report on Form 10-Q contains trademarks, service marks and registered marks of Harris Corporation and its subsidiaries. HD Radio® is a registered trademark of iBiquity Digital Corporation.

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HARRIS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

	Quarter Ended		Three Quarters Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
	(In millions, except per share amounts)			
Revenue from product sales and services	\$ 1,072.4	\$ 881.1	\$ 3,035.4	\$ 2,482.4
Cost of product sales and services	(719.1)	(588.1)	(2,043.7)	(1,730.3)
Engineering, selling and administrative expenses	(241.5)	(173.9)	(592.3)	(481.3)
Gain on combination with Stratex Networks, Inc. (Stratex)	163.4		163.4	
Non-operating income (loss)	2.8		(15.9)	(0.8)
Interest income	4.6	2.3	9.5	8.5
Interest expense	(10.5)	(10.1)	(30.1)	(26.6)
Income before income taxes and minority interest	272.1	111.3	526.3	251.9
Income taxes	(63.8)	(38.8)	(140.1)	(99.1)
Minority interest in Harris Stratex Networks, Inc. (Harris Stratex Networks), net of tax	6.6		6.6	
Net income	\$ 214.9	\$ 72.5	\$ 392.8	\$ 152.8
Net income per common share				
Basic	\$ 1.62	\$.54	\$ 2.95	\$ 1.15
Diluted	\$ 1.52	\$.52	\$ 2.79	\$ 1.10
Cash dividends paid per common share	\$.11	\$.08	\$.33	\$.24
Basic weighted average shares outstanding	133.0	133.2	133.0	132.8
Diluted weighted average shares outstanding	141.7	142.0	141.7	141.6

See accompanying Notes to Condensed Consolidated Financial Statements.

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HARRIS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	March 30, 2007	June 30, 2006(1)
	(In millions)	
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 481.8	\$ 181.3
Short-term investments	40.8	112.6
Receivables	630.3	560.6
Inventories	523.0	468.9
Deferred income taxes	112.0	105.0
Total current assets	1,787.9	1,428.4
<i>Other Assets</i>		
Property, plant and equipment	451.2	393.4
Goodwill	1,207.1	951.1
Identifiable intangible assets	313.7	193.4
Non-current notes receivable	5.1	4.3
Other assets	175.8	171.7
	2,152.9	1,713.9
	\$ 3,940.8	\$ 3,142.3
Liabilities and Shareholders Equity		
<i>Current Liabilities</i>		
Short-term debt	\$ 8.9	\$ 0.2
Accounts payable	279.1	235.6
Compensation and benefits	186.6	198.4
Other accrued items	183.3	148.5
Advance payments and unearned income	162.1	129.9
Income taxes payable	55.6	38.1
Current portion of long-term debt	310.4	1.4
Total current liabilities	1,186.0	752.1
<i>Other Liabilities</i>		
Non-current deferred income taxes	24.5	28.6
Long-term debt	411.0	699.5
Minority interest in Harris Stratex Networks	323.9	
<i>Shareholders Equity</i>		
Preferred stock, without par value; 1,000,000 shares authorized; none issued	133.2	132.8

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Common stock, \$1.00 par value; 250,000,000 shares authorized; issued and outstanding 133,160,956 shares at March 30, 2007 and 132,842,734 shares at June 30, 2006

Other capital	301.2	264.8
Retained earnings	1,563.3	1,252.8
Accumulated other comprehensive income (loss)	(2.3)	11.7
Total shareholders' equity	1,995.4	1,662.1
	\$ 3,940.8	\$ 3,142.3

(1) Derived from audited financial statements.

See accompanying Notes to Condensed Consolidated Financial Statements.

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HARRIS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

	Three Quarters Ended	
	March	March 31,
	30,	2006
	2007	2006
	(In millions)	
Operating Activities		
Net income	\$ 392.8	\$ 152.8
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	89.1	66.0
Purchased in-process research and development write-off	15.3	3.6
Non-current deferred income tax	(2.6)	(3.5)
Gain on combination with Stratex	(163.4)	
Minority interest in Harris Stratex Networks, net of tax	(6.6)	
(Increase) decrease in:		
Accounts and notes receivable	(27.1)	(20.5)
Inventories	(26.2)	(83.1)
Increase (decrease) in:		
Accounts payable and accrued expenses	(6.1)	7.4
Advance payments and unearned income	20.6	21.1
Income taxes	6.3	46.5
Other	31.2	24.7
Net cash provided by operating activities	323.3	215.0
Investing Activities		
Cash paid for acquired businesses		(443.5)
Cash received in the combination with Stratex	33.2	
Additions of plant and equipment	(66.6)	(64.4)
Additions of capitalized software	(32.2)	(27.9)
Cash paid for short-term investments available-for-sale	(264.9)	(301.7)
Proceeds from the sale of short-term investments available-for-sale	362.1	159.0
Net cash provided by (used in) investing activities	31.6	(678.5)
Financing Activities		
Proceeds from borrowings	36.0	331.6
Repayment of borrowings	(31.5)	(33.0)
Proceeds from exercise of employee stock options	27.8	28.7
Repurchases of common stock	(47.0)	(16.2)
Cash dividends	(44.2)	(32.0)
Net cash provided by (used in) financing activities	(58.9)	279.1

Effect of exchange rate changes on cash and cash equivalents	4.5	(0.4)
Net increase (decrease) in cash and cash equivalents	300.5	(184.8)
Cash and cash equivalents, beginning of year	181.3	377.6
Cash and cash equivalents, end of period	\$ 481.8	\$ 192.8

Supplemental disclosures of cash flow information:

Non-cash investing activities:

Formation and combination of Harris Stratex Networks:

Contribution of Harris Microwave Communications Division business assets and liabilities to the minority stockholders	\$ (117.9)	\$
Receipt by the majority stockholder of Stratex assets and liabilities	\$ 281.3	\$

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****March 30, 2007****Note A Significant Accounting Policies and Recent Accounting Pronouncements***Basis of Presentation*

The accompanying condensed consolidated financial statements of Harris Corporation and its subsidiaries (Harris, Company, we, our, and us refer to Harris Corporation and its consolidated subsidiaries) 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, they 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 only of normal, recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods. The results for the quarter and three quarters ended March 30, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet at June 30, 2006 has been derived from the audited financial statements but does not include all 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 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 June 30, 2006 (Fiscal 2006 Form 10-K).

The accompanying condensed consolidated financial statements include 100% of the assets and liabilities of our majority-owned subsidiary, Harris Stratex Networks, Inc. (Harris Stratex Networks), and the 43% ownership interests of the minority stockholders of Harris Stratex Networks are recorded in the Minority interest in Harris Stratex Networks caption in the accompanying Condensed Consolidated Balance Sheet. All intercompany transactions and accounts have been eliminated. References to Harris Stratex Networks include its consolidated subsidiaries.

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

Minority Interest

Minority interest represents the minority stockholders proportionate share of equity and net income or net loss of Harris Stratex Networks. As of March 30, 2007, the minority stockholders proportionate share of the equity in Harris Stratex Networks of \$323.9 million is reflected as Minority interest in Harris Stratex Networks in the accompanying Condensed Consolidated Balance Sheet. The minority stockholders proportionate share of net loss for the three months ended March 30, 2007 was \$6.6 million.

Related Party Transactions

We have sales to and purchases from Harris Stratex Networks from time to time. The entity initiating the transaction sells to the other entity at the appropriate transfer price. The entity making the sale to the end customer records the profit on the transaction at the appropriate transfer price. Our sales to Harris Stratex Networks since January 26, 2007 were \$1.1 million. Our purchases from Harris Stratex Networks since January 26, 2007 were \$0.2 million.

Additionally, on January 26, 2007, we entered into a Transition Services Agreement with Harris Stratex Networks to provide for certain services during the period subsequent to the combination with Stratex Networks, Inc. (Stratex). These services are charged to Harris Stratex Networks based primarily on actual usage and include, among others, database management, supply chain operating systems, eBusiness, financial systems and services, back office material resource planning support, human resources systems, internal and information systems shared services support, network management and help desk support, and server administration and support. During the quarter ended March 30, 2007, we charged Harris Stratex Networks \$1.2 million for these services.

Total payables due to Harris Stratex Networks were \$0.4 million at March 30, 2007. Total receivables from Harris Stratex Networks, including those resulting from the combination transaction and Transition Services Agreement, were \$14.7 million at March 30, 2007.

Table of Contents*Capitalized Software to Be Sold, Leased or Otherwise Marketed*

Capitalized software to be sold, leased or otherwise marketed is accounted for in accordance with Statement of Financial Accounting Standards No. 86, Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed (Statement 86). Costs incurred to acquire or create a computer software product are expensed when incurred as research and development until technological feasibility has been established for the product, at which point such costs are capitalized. Technological feasibility is normally established upon completion of a detailed program design. Capitalization of computer software costs ceases when the product is available for general release to customers. Costs of reproduction, documentation, training materials, physical packaging, maintenance and customer support are charged to cost of products sold when related revenue is recognized. Capitalized software is evaluated for impairment periodically by comparing the unamortized capitalized costs of a computer software product to the net realizable value of that product. In the quarter ended March 30, 2007, we recorded an \$18.9 million write-down of capitalized software in our Broadcast Communications segment. The write-down was a result of management's decision to discontinue an automation software development effort. The \$18.9 million write-down of capitalized software is included in the Engineering, selling and administrative expenses line item of the accompanying Condensed Consolidated Statement of Income.

Capitalized software, accounted for under Statement 86, had a net carrying value of \$38.4 million at March 30, 2007 and \$41.7 million at June 30, 2006. Total amortization expense related to these capitalized software amounts for the quarter and three quarters ended March 30, 2007 was \$2.2 million and \$5.0 million, respectively. Total amortization expense related to these capitalized software amounts for the quarter and three quarters ended March 31, 2006 was \$0.5 million and \$1.5 million, respectively. The annual amortization of capitalized software costs is the greater of the amount computed using (a) the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues for that product or (b) the straight-line method over the remaining estimated economic life of the product. Based on this policy, the useful lives over which we amortize costs of computer software to be sold range from three years to seven years. Amortization commences when the product is available for general release to customers. The capitalized costs and accumulated amortization are reflected in the Other assets line item of the accompanying Condensed Consolidated Balance Sheet. The amortization of capitalized software is included in the

Cost of product sales and services line item of the accompanying Condensed Consolidated Statement of Income.

Property, Plant and Equipment

Property, plant and equipment are carried on the basis of cost. Depreciation of buildings, machinery and equipment is computed by the straight-line and accelerated methods. The estimated useful lives of buildings generally range between 3 and 50 years. The estimated useful lives of machinery and equipment generally range between 3 and 10 years. Software capitalized for internal use is accounted for in accordance with the American Institute of Certified Public Accountants Statement of Position 98-1, Accounting for the Costs of Computer Software Developed or Obtained for Internal Use (SOP 98-1). Amortization of internal use software begins when the software is put into service and is based on the expected useful life of the software. The useful life over which we amortize internal use software ranges from two years to five years. See Note H Property, Plant and Equipment for additional information regarding property, plant and equipment.

Recent Accounting Pronouncements

In November 2005, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 123(R)-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards (FSP 123R-3). FSP 123R-3 provides a simplified alternative method to calculate the beginning pool of excess tax benefits against which excess future deferred tax assets (that result when the compensation cost recognized for an award exceeds the ultimate tax deduction) could be written off under FASB Statement of Financial Accounting Standards No. 123 (Revised 2004), Share-Based Payment (Statement 123R). The guidance in FSP 123R-3 was effective on November 10, 2005. We determined not to make the one-time election to adopt the alternative transition method described in FSP 123R-3. We have implemented the provisions of Statement 123R following the guidance for calculating the pool of excess tax benefits described in paragraph 81 of Statement 123R and the guidance related to reporting cash flows described in paragraph 68 of Statement 123R. Our determination not to adopt the alternative transition method described in FSP 123R-3 did not have a material impact on our financial position, results of

operations or cash flows.

In March 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (Issue 06-3). The EITF reached a conclusion that the presentation of taxes such as sales, use, value added, and excise taxes on either a gross (included in revenues and costs) or a net (excluded from revenues and costs) basis is an accounting policy decision that should be disclosed by a company. In addition, a company should disclose the amounts of those taxes such as sales, use, value added, and excise taxes that are reported on a gross basis in interim and annual financial statements for each period for which an income statement is presented if those amounts are significant. The provisions of Issue 06-3 were effective for interim and annual reporting periods that began after December 15, 2006. We have disclosed in our Fiscal 2006 Form 10-K that we record taxes collected from customers and remitted to governmental authorities on a net basis. Our early adoption and implementation of the provisions of Issue 06-3 did not have a material impact on our financial position, results of operations or cash flows.

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim

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periods, disclosure, and transition. FIN 48 is effective for fiscal years that begin after December 15, 2006, which for us will be our fiscal 2008. We are currently evaluating the impact FIN 48 will have on our financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Statement 157 applies under other accounting pronouncements that require fair value measurement in which the FASB concluded that fair value was the relevant measurement, but does not require any new fair value measurements. Statement 157 will be effective for us beginning in fiscal 2009. We are currently evaluating the impact Statement 157 will have on our financial position, results of operations and cash flows.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (Statement 158), which amends FASB Statements No. 87, Employers Accounting for Pensions; No. 88, Employers Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits; No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions; and No. 132(R), Employers Disclosures about Pension and Other Postretirement Benefits. Statement 158 requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through the comprehensive income of a business entity. Statement 158 also requires an employer to measure the funded status of a plan as of the date of the employer's year-end balance sheet, with limited exceptions. The portion of Statement 158 that requires the recognition of overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability will be effective for us as of June 29, 2007. The portion of Statement 158 that requires an employer to measure the funded status of a plan as of the date of the employer's year-end balance sheet will be effective for us as of July 3, 2009.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108). SAB 108 expresses the SEC's views regarding the process of quantifying misstatements in financial statements. The view of the SEC is that the effects of prior year errors in the balance sheet must be taken into account for the current year income statement financial reporting. We implemented the provisions of SAB 108 during the first quarter of fiscal 2007 and it did not have a material impact on our financial position, results of operations or cash flows.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (Statement 159). Statement 159 allows companies to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, all unrealized gains or losses in fair value for that instrument shall be reported in earnings at each subsequent reporting date. Statement 159 is effective for fiscal years that begin after November 15, 2007, which for us will be our fiscal 2009. We are currently evaluating the impact Statement 159 will have on our financial position, results of operations and cash flows.

Reclassifications

Certain prior-year amounts have been reclassified on the accompanying condensed consolidated financial statements to conform with current-year classifications. These reclassifications include:

Reclassifying \$28.1 million software capitalized under the provisions of SOP 98-1 from the caption Other assets to the caption Property, plant and equipment in our Condensed Consolidated Balance Sheet as of June 30, 2006.

Reclassifying the purchases and sales of auction rate securities as investing activities rather than cash and cash equivalents. We reclassified \$142.7 million from a positive change in cash and cash equivalents to cash used in investing activities, in our Condensed Consolidated Statement of Cash Flows for the three quarters ended March 31, 2006.

Reclassifying \$3.9 million and \$9.0 million amortization of developed technology from the caption Engineering, selling and administrative expenses to the caption Cost of product sales and services in our Condensed Consolidated Statement of Income for the quarter and three quarters ended March 31, 2006, respectively.

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On January 26, 2007, we completed the combination of our former Microwave Communications Division with Stratex, a publicly-traded provider of high-speed wireless transmission systems, to form a new company named Harris Stratex Networks, Inc. (as defined above, "Harris Stratex Networks") pursuant to an Amended and Restated Formation, Contribution and Merger Agreement (the "Combination Agreement"). The combination creates a leading global communications solutions company offering end-to-end wireless transmissions solutions for mobile and fixed-wireless service providers and private networks. Pursuant to the combination with Stratex, each share of Stratex common stock was converted into one-fourth of a share of Harris Stratex Networks Class A common stock. As a result of the transaction, 24,782,153 shares of Harris Stratex Networks Class A common stock were issued to the former holders of Stratex common stock and Stratex became a wholly-owned subsidiary of Harris Stratex Networks. In the combination transaction, we contributed the assets of our Microwave Communications Division, including \$32.1 million in cash, and, in exchange Harris Stratex Networks assumed certain of the liabilities related to our Microwave Communications Division and issued 32,913,377 shares of Harris Stratex Networks Class B common stock to us. As a result of these transactions, we own approximately 57 percent of Harris Stratex Networks outstanding stock and the minority stockholders own approximately 43 percent of Harris Stratex Networks outstanding stock. Harris Stratex Networks is a publicly-traded company listed on the NASDAQ Global Market under the symbol HSTX. Harris Stratex Networks results of operations, which include Stratex results of operations, have been included in the accompanying Condensed Consolidated Statements of Income and Cash Flows since the combination date of January 26, 2007, with appropriate elimination of the minority interest.

The Stratex combination was accounted for as a purchase business combination with us considered to be the purchaser for accounting purposes. The purchase price of \$493.0 million is calculated as follows:

Calculation of Allocable Purchase Price

	(In millions)
Value of Harris Stratex Networks shares issued to Stratex stockholders based on the closing market price of Stratex on January 26, 2007	\$ 464.9
Value of Stratex vested options assumed based on the Black-Scholes-Merton option-pricing model	15.5
Acquisition costs	12.6
Total allocable purchase price	\$ 493.0

The combination also resulted in a gain to us of approximately \$163.4 million (\$143.1 million after-tax), which relates to the deemed sale of 43 percent of the assets and liabilities of our Microwave Communications Division to the minority stockholders of Harris Stratex Networks.

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The table below represents the allocation of the total consideration to Stratex tangible and identifiable intangible assets and liabilities based on management's assessment of their respective fair values as of January 26, 2007. Any additional payments will be recorded as adjustments to goodwill.

Balance Sheet as of January 26, 2007

	(In millions)
Cash and cash equivalents	\$ 33.1
Short-term investments	25.5
Accounts and notes receivable	43.1
Inventories	44.2
Identifiable intangible assets	149.5
In-process research and development	15.3
Goodwill	247.1
Property, plant and equipment	42.6
Non-current deferred tax assets	1.5
Other assets	0.7
Total assets	\$ 602.6
Accounts payable and accrued expenses	\$ 68.4
Advance payments and unearned income	2.9
Other accrued items	8.7
Income taxes payable	4.9
Current portion of long-term debt	11.3
Long-term debt	13.4
Common stock and additional paid-in capital	493.0
Total liabilities and shareholders' equity	\$ 602.6

The following table summarizes the allocation of estimated fair value of identifiable intangible assets resulting from the combination. For purposes of this allocation, we have assessed the fair value of Stratex identifiable intangible assets related to customer contracts, customer relationships, employee covenants not to compete, developed technology and trade names based on the net present value of the projected income stream of these identifiable intangible assets. The resulting fair value is being amortized over the estimated useful life of each identifiable intangible asset on a straight-line basis. We estimated the fair value of in-process research and development to be approximately \$15.3 million, which was immediately written-off in the quarter to the Engineering, selling and administrative expenses caption in the accompanying Condensed Consolidated Statement of Income. This represents certain technologies under development, primarily related to the next generation of the Stratex Eclipse™ product. Harris Stratex Networks expects to incur up to an additional \$3.4 million of expenses to complete this development, with completion expected during our fiscal 2008.

Identifiable Intangible Assets	Expense Type	Estimated Life (Years)	Total (In millions)
Developed technology	Cost of product sales and services	10	\$ 70.1

Stratex tradename	Engineering, selling and administrative	Indefinite	33.0
Other tradenames	Engineering, selling and administrative	5	11.4
Customer relationships	Engineering, selling and administrative	4-10	28.8
Contract backlog	Engineering, selling and administrative	0.4	4.3
Non-competition agreements	Engineering, selling and administrative	1	1.9
Total identifiable intangible assets			\$ 149.5

The purchase price allocation is preliminary, and until January 25, 2008, additional information could come to our attention that may require us to revise from time to time the purchase price allocation in connection with the Stratex combination. The excess of the purchase price over the fair value of the tangible and identifiable intangible net assets acquired was assigned to goodwill. The goodwill resulting from the combination was associated primarily with the Stratex market presence and leading position, its growth opportunity in the markets in which it operates, its experienced work force and established operating infrastructure.

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In accordance with FASB Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (Statement 142), goodwill will not be amortized but will be tested for impairment at least annually. The goodwill resulting from the Stratex combination is not deductible for tax purposes.

Pro Forma Results

The following summary, prepared on a pro forma basis, presents unaudited consolidated results of operations as if the combination with Stratex had been completed as of the beginning of the periods presented, after including the impact of adjustments such as amortization of intangible assets and the related income tax effects. This pro forma presentation does not include any impact of combination synergies.

	Quarter Ended		Three Quarters Ended	
	March	March	March	March
	30,	31,	30,	31,
	2007	2006	2007	2006
	(In millions, except per share amounts)			
Revenue from product sales and services as reported	\$ 1,072.4	\$ 881.1	\$ 3,035.4	\$ 2,482.4
Revenue from product sales and services pro forma	\$ 1,080.2	\$ 945.1	\$ 3,181.2	\$ 2,658.5
Net income as reported	\$ 214.9	\$ 72.5	\$ 392.8	\$ 152.8
Net income pro forma	\$ 212.9	\$ 67.8	\$ 375.4	\$ 147.2
Net income per diluted common share as reported	\$ 1.52	\$.52	\$ 2.79	\$ 1.10
Net income per diluted common share pro forma	\$ 1.51	\$.48	\$ 2.67	\$ 1.06

The pro forma results are not necessarily indicative of our results of operations had the combination with Stratex been completed for the entire periods presented.

Note C Ownership in Harris Stratex Networks

Harris Stratex Networks is authorized to issue and has issued both Class A common stock and Class B common stock. We own 100% of the outstanding shares of Class B common stock. The Class B common stock has the same rights and privileges as, and ranks equally and shares ratably with, the Class A common stock, and otherwise is substantially similar to the Class A common stock, except that holders of shares of Class B common stock have certain additional rights, several of which are generally described below.

Holders of Class B common stock have the right to vote separately as a class to elect a number of Harris Stratex Networks directors (the Class B Directors) equal to such holders' proportionate ownership of the total voting power of the outstanding Harris Stratex Networks common stock (and to remove and replace such Class B Directors) so long as such holders' total voting power is equal to or greater than 10%. Also, subject to limited exceptions, holders of Class B common stock have a preemptive right to preserve their proportionate interest in Harris Stratex Networks, but only when the holders of Class B common stock hold a majority of the total number of votes entitled to be cast generally in an election of the directors of Harris Stratex Networks (other than an election of the Class B Directors).

We have agreed that until January 26, 2009 we will not acquire or dispose of any of our voting securities in Harris Stratex Networks, unless (i) pursuant to our preemptive right described above, (ii) approved in advance by a majority of the Harris Stratex Networks directors who are not Class B directors (the Class A Directors), or (iii) as a result of actions taken by Harris Stratex Networks that do not increase or decrease our percentage of total voting power which we and our affiliates are entitled to cast in respect of all classes of capital stock or securities of Harris Stratex Networks then outstanding and entitled to vote generally in the election of Class A Directors (including the holders of Class B common stock) beneficially owned by us. We have also agreed that from January 26, 2009 to January 26, 2011, we will not (1) beneficially own more than 80% of the voting power of Harris Stratex Networks without the

prior approval of a majority of the Class A Directors or (2) transfer all or a portion of our interest in Harris Stratex Networks to a person if, following such transfer, that person would be entitled to cast a majority of the outstanding votes in an election of the directors of Harris Stratex Networks (other than an election of the Class B Directors) unless a majority of the Class A Directors approves such transfer in advance or the person purchasing our interest in Harris Stratex Networks offers to acquire all the outstanding voting securities of Harris Stratex Networks at the same price and on the same terms as apply to the transfer from us. Shares of Class A common stock currently are listed for trading on NASDAQ under the symbol HSTX , while shares of Class B

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common stock currently are not listed for trading on any exchange or quotation system and are not expected to be so listed at any time in the foreseeable future.

Note D Stock Options and Share-Based Compensation

As of March 30, 2007, we had three shareholder-approved stock incentive plans for employees under which options or other share-based compensation was outstanding, and we had the following types of share-based awards outstanding under these plans: 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 our employees with those of our shareholders. The compensation cost related to our share-based awards that was charged against income was \$7.4 million for the quarter ended March 30, 2007, and \$19.1 million for the three quarters ended March 30, 2007, which includes \$1.0 million related to Harris Stratex Networks share-based award plans. The compensation cost related to our share-based awards that was charged against income was \$5.7 million for the quarter ended March 31, 2006, and \$15.9 million for the three quarters ended March 31, 2006. Grants to employees during the third quarter of fiscal 2007 under these plans consisted of 24,200 stock option grants; 900 performance share awards and 9,500 restricted stock awards. Grants to employees during the first three quarters of fiscal 2007 under these plans consisted of 1,134,700 stock option grants; 244,700 performance share awards; 19,900 performance share unit awards and 163,700 restricted stock awards. The fair value of these options was estimated using a Black-Scholes-Merton option valuation model that used the following assumptions: expected volatility of 32.2%; expected dividend yield of 1.0%; and expected life in years of 4.33.

Note E Comprehensive Income and Accumulated Other Comprehensive Income

Total comprehensive income for the quarter and three quarters ended March 30, 2007 and March 31, 2006 was comprised of the following:

	Quarter Ended		Three Quarters Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
	(In millions)			
Net income	\$ 214.9	\$ 72.5	\$ 392.8	\$ 152.8
Other comprehensive income (loss):				
Net unrealized loss on securities available-for-sale				(0.5)
Foreign currency translation	(8.2)	0.3	(13.5)	2.5
Net unrealized gain (loss) on hedging derivatives	0.3	(0.5)	(0.5)	0.7
Total comprehensive income	\$ 207.0	\$ 72.3	\$ 378.8	\$ 155.5

The components of accumulated other comprehensive income, net of related tax, at March 30, 2007 and June 30, 2006 are as follows:

	March 30, 2007	June 30, 2006
	(In millions)	
Foreign currency translation adjustments	\$ (1.7)	\$ 11.8
Net unrealized loss on hedging activity	(0.6)	(0.1)
	\$ (2.3)	\$ 11.7

Note F Receivables

Receivables are summarized below:

	March 30, 2007	June 30, 2006
	(In millions)	
Accounts receivable	\$ 554.7	\$ 479.7
Unbilled cost from cost-plus contracts	80.1	82.6
Notes receivable due within one year, net	11.1	15.6
	645.9	577.9
Less allowances for collection losses	(15.6)	(17.3)
	\$ 630.3	\$ 560.6

Table of Contents**Note G Inventories**

Inventories are summarized below:

	March 30, 2007	June 30, 2006
	(In millions)	
Unbilled costs and accrued earnings on fixed-price contracts	\$ 159.6	\$ 137.3
Finished products	135.2	90.0
Work in process	60.1	69.4
Raw materials and supplies	168.1	172.2
	\$ 523.0	\$ 468.9

Unbilled costs and accrued earnings on fixed-price contracts are net of progress payments of \$147.8 million at March 30, 2007 and \$131.4 million at June 30, 2006.

Note H Property, Plant and Equipment

Property, plant and equipment are summarized below:

	March 30, 2007	June 30, 2006
	(In millions)	
Land	\$ 11.5	\$ 11.6
Software capitalized for internal use	64.7	52.3
Buildings	341.9	326.1
Machinery and equipment	760.5	699.4
	1,178.6	1,089.4
Less allowances for depreciation and software amortization	(727.4)	(696.0)
	\$ 451.2	\$ 393.4

Depreciation and software amortization expense related to property, plant and equipment for the quarter and three quarters ended March 30, 2007 was \$20.5 million and \$55.8 million, respectively. Depreciation and software amortization expense related to property, plant and equipment for the quarter and three quarters ended March 31, 2006 was \$16.8 million and \$45.3 million, respectively.

Note I Goodwill and Identifiable Intangible Assets

Changes in the carrying amount of goodwill for the three quarters ended March 30, 2007 by business segment are as follows:

	Government Communications Systems	RF Communications	Harris Stratex Networks (formerly Microwave Communications)	Broadcast Communications	Total
	(In millions)				
Balance at June 30, 2006	\$ 125.4	\$ 6.0	\$ 28.3	\$ 791.4	\$ 951.1
			247.1		247.1

Goodwill acquired during the period								
Other (including foreign currency translation and true-ups of previously estimated purchase price allocations)				(0.9)		9.8		8.9
Balance at March 30, 2007	\$ 125.4	\$	6.0	\$	274.5	\$	801.2	\$ 1,207.1

The goodwill resulting from acquisitions was associated primarily with the acquired companies' market presence and leading position, growth opportunity in the market in which the acquired companies operated, experienced work force and established operating infrastructures.

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We have identifiable intangible assets related primarily to technology acquired through acquisitions. The unamortized balance of identifiable intangible assets on our accompanying Condensed Consolidated Balance Sheet was \$313.7 million at March 30, 2007, which included \$160.2 million related to developed technologies, \$33.0 million related to indefinite-lived intangibles and \$120.5 million related to other amortizable intangibles such as customer relationships, trade names and non-compete agreements. The unamortized balance of identifiable intangible assets on our accompanying Condensed Consolidated Balance Sheet was \$193.4 million at June 30, 2006, which included \$107.2 million related to developed technologies and \$86.2 million related to other amortizable intangibles such as customer relationships, tradenames and non-compete agreements. Accumulated amortization related to identifiable intangibles was \$71.2 million at March 30, 2007 and \$44.4 million at June 30, 2006. Our identifiable intangible assets are being amortized over their useful economic lives, which range from 1 year to 17 years. The weighted average useful life of our identifiable intangible assets is 8.3 years. Amortization expense related to identifiable intangible assets for the quarter and three quarters ended March 30, 2007 was \$11.0 million and \$26.8 million, respectively. Amortization expense related to identifiable intangible assets for the quarter and three quarters ended March 31, 2006 was \$6.7 million and \$16.0 million, respectively. The estimated amortization expense related to identifiable intangible assets for the fourth quarter of fiscal 2007 is \$13.7 million and for the five fiscal years following fiscal 2007 and, in total, thereafter is: \$45.6 million in fiscal 2008, \$42.0 million in fiscal 2009, \$41.4 million in fiscal 2010, \$40.4 million in fiscal 2011, \$30.8 million in fiscal 2012 and \$66.8 million thereafter.

Note J Selected Investments

We have equity investments in technology companies, which are accounted for using the cost method of accounting. These investments are included in the Other assets caption on our accompanying Condensed Consolidated Balance Sheet. These selected investments are summarized below:

<u>Investments</u>	March	
	30, 2007	June 30, 2006
	(In millions)	
Terion, Inc.	\$	\$ 23.0
AuthenTec, Inc.	12.0	10.5
	\$ 12.0	\$ 33.5

Terion, Inc. (Terion) is a privately-held company that, until the asset sale transaction described below, provided wireless data communication and information solutions for mobile and remote business-to-business applications focusing on the transportation industry. None of Terion's revenue was generated from us or our affiliates. As previously reported in our Fiscal 2006 Form 10-K, Terion's largest customer, which represented approximately 60,000 units of an installed base of approximately 110,000 units, informed Terion in July 2006 that it had signed a contract with another provider and would be moving its fleet off of Terion's system over the next two years. Terion management provided us with a revised forecast for the business and an update on the strategic alternatives for Terion. Based on the information provided and an analysis performed by an independent valuation specialist using different probabilities for likely outcomes, we recorded a \$19.8 million impairment of the investment under the caption

Non-operating income (loss) on our Condensed Consolidated Statement of Income during the first quarter of fiscal 2007. On January 10, 2007, Terion sold substantially all of its assets to GE Asset Intelligence, LLC (the Purchaser). Following the sale, Terion distributed the initial proceeds to its stockholders, and we received \$5.0 million in respect of our ownership interest in Terion, resulting in a gain of \$1.8 million. The gain was recorded during the quarter ended March 30, 2007 in the Non-operating income (loss) caption in the accompanying Condensed Consolidated Statement of Income. Terion may receive additional proceeds from the asset sale, which are being held in escrow and will be released by the Purchaser if and when certain events occur, and any such additional proceeds would be distributed by Terion to its stockholders, including us, in accordance with their respective ownership interests. We have no exposure to any further losses related to our ownership interest in Terion.

AuthenTec, Inc. (AuthenTec) is a privately-held company that provides advanced biometric fingerprint sensors to the PC, wireless, PDA, access control and automotive markets. AuthenTec's revenue generated from us and our affiliates has not been material. We have invested technology and cash in AuthenTec since 1998 and we currently nominate one member of AuthenTec's board of directors. The current maximum exposure to loss we have with our ownership interest in AuthenTec is \$12.0 million. We use an independent valuation specialist to assist us in determining the fair value of the investment.

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Long-term debt includes the following:

	March 30, 2007	June 30, 2006
	(In millions)	
5.0% notes, due fiscal 2016	\$ 300.0	\$ 300.0
3.5% convertible debentures, due fiscal 2023	149.1	149.5
6.35% debentures, due fiscal 2028	150.0	150.0
7.0% debentures, due fiscal 2026	100.0	100.0
6.65% debentures, due fiscal 2007		1.4
Stratex Credit Facility:		
Term Loan A	7.3	
Term Loan B	15.0	
Total debt	\$ 721.4	\$ 700.9
Less: current portion of long-term debt	\$ (310.4)	\$ (1.4)
Total long-term debt	\$ 411.0	\$ 699.5

The potential maturities of long-term debt, including the current portion, in the fourth quarter of fiscal 2007 are \$2.9 million and for the following five years and, in total, thereafter are: \$309.7 million in fiscal 2008; \$5.0 million in fiscal 2009; \$3.8 million in fiscal 2010; none in fiscal 2011; none in fiscal 2012 and \$400.0 million thereafter. These potential maturities take into consideration the possibility that the debt holders will exercise put options for our 6.35% Debentures in February 2008 and our 3.5% Convertible Debentures in August 2007. All of such outstanding long-term debt is unsubordinated and unsecured with equal ranking, except that the debt issued by Stratex described below is debt of Stratex and is not guaranteed by Harris Corporation.

On September 20, 2005, we completed the issuance of \$300 million in aggregate principal amount of 5% Notes due October 1, 2015. We may redeem the notes in whole, or in part, at any time at the make-whole redemption price. The make-whole redemption price is equal to the greater of 100 percent of the principal amount of the notes being redeemed or the sum of the present values of the remaining scheduled payments of the principal and interest (other than interest accruing to the date of redemption) on the notes being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as defined, plus 15 basis points. In each case, we will pay accrued interest on the principal amount of the notes being redeemed to the redemption date. We incurred \$4.1 million in debt issuance costs and discounts related to the issuance of the notes, which are being amortized on a straight-line basis over a ten-year period and reflected as a portion of interest expense in the Condensed Consolidated Statement of Income.

On August 26, 2002, we completed the issuance of \$150 million in aggregate principal amount of 3.5% Convertible Debentures due August 15, 2022. The debentures are unsecured obligations convertible, in certain instances, into shares of our common stock at a conversion price of \$22.625 per share, subject to adjustment. The debentures were issued at 100 percent of the principal amount, less a discount of 2.5 percent to the initial purchasers. We may redeem the debentures commencing August 2007 at 100 percent of the principal amount plus accrued interest in cash. Holders may require us to repurchase the debentures, in whole or in part, on specified dates in 2007, 2012 and 2017, or upon the occurrence of certain other events, at 100 percent of the principal amount plus accrued interest. The debentures bear interest at an annual rate of 3.5 percent. The interest rate will be reset in August 2007, 2012 and 2017, but in no event will it be reset below 3.5 percent or above 5.5 percent per annum. We incurred \$4.8 million in debt issuance costs related to the issuance of the convertible debentures, which costs are being amortized on a straight-line basis over a five-year period and reflected as a portion of interest expense in the Condensed Consolidated Statement

of Income.

In February 1998, we completed the issuance of \$150 million in aggregate principal amount of 6.35% Debentures due February 1, 2028. We may redeem the debentures in whole, or in part, at any time after February 2, 2008 at a pre-determined redemption price. Holders may require us to repay all or a portion of the debentures on February 1, 2008 at 100 percent of the principal amount of the debentures being redeemed plus accrued interest.

In January 1996, we completed the issuance of \$100 million in aggregate principal amount of 7% Debentures due January 15, 2026. These debentures are not redeemable prior to maturity.

Prior to the combination with Stratex, Stratex was a party to a credit facility (the Stratex Credit Facility) with a commercial bank, and following such combination, Stratex remains a party to the Stratex Credit Facility. Harris and its subsidiaries (other than Stratex) are not parties to the Stratex Credit Facility and are not obligated under, or guarantors of, the Stratex Credit Facility. Stratex s

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indebtedness under the Stratex Credit Facility is reflected in the accompanying Condensed Consolidated Balance Sheet as a result of the consolidation in the accompanying condensed consolidated financial statements of the financial results of Harris Stratex Networks. The Stratex Credit Facility allows for revolving credit borrowings by Stratex of up to \$50 million, with available credit defined as \$50 million less the outstanding balance of the term loan portion and any usage under the revolving credit portion. As of March 30, 2007, the balance of the term loan portion of the Stratex Credit Facility was \$22.3 million (of which \$11.1 million is recorded in long-term debt) and there was \$3.4 million in outstanding standby letters of credit, which are defined as usage under the revolving credit portion of the Stratex Credit Facility. Term Loan A of the Stratex Credit Facility requires monthly principal payments by Stratex of \$0.5 million plus interest at a fixed rate of 6.38% through May 2008. Term Loan B of the Stratex Credit Facility requires monthly principal payments by Stratex of \$0.4 million plus interest at a fixed rate of 7.25% through March 2010. The Stratex Credit Facility agreement contains a minimum tangible net worth covenant and a liquidity ratio covenant. At March 30, 2007, Stratex was in compliance with these financial covenants.

Note L Accrued Warranties

Changes in our warranty liability, which is included as a component of the Other accrued items caption on the accompanying Condensed Consolidated Balance Sheet, during the first three quarters of fiscal 2007, are as follows:

	(In millions)
Balance as of June 30, 2006	\$ 30.2
Warranty provision for sales made during the three quarters ended March 30, 2007	13.9
Settlements made during the three quarters ended March 30, 2007	(14.0)
Other adjustments to the warranty liability, including those for foreign currency translation, during the three quarters ended March 30, 2007	3.2
Balance as of March 30, 2007	\$ 33.3

Note M Net Income Per Diluted Share

The computations of net income per diluted share are as follows:

	Quarter Ended		Three Quarters Ended	
	March	March	March	March
	30,	31,	30,	31,
	2007	2006	2007	2006
	(In millions, except per share amounts)			
Net income	\$ 214.9	\$ 72.5	\$ 392.8	\$ 152.8
Impact of convertible debentures	1.0	1.0	2.9	2.9
Net income used in diluted share calculation(A)	\$ 215.9	\$ 73.5	\$ 395.7	\$ 155.7
Basic weighted average shares outstanding	133.0	133.2	133.0	132.8
Impact of dilutive stock options	2.1	2.2	2.1	2.2
Impact of convertible debentures	6.6	6.6	6.6	6.6
Diluted weighted average shares outstanding(B)	141.7	142.0	141.7	141.6

Net income per diluted share(A)/(B)	\$ 1.52	\$.52	\$ 2.79	\$ 1.10
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In fiscal 2003, we issued \$150 million in aggregate principal amount of 3.5% Convertible Debentures due 2022. Holders of the debentures have the right to convert each of their debentures into shares of our common stock prior to the stated maturity of the debentures under any of the following circumstances:

during any calendar quarter, if the closing sale price of our common stock, for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the previous calendar quarter, is more than 110 percent of the applicable conversion price per share of our common stock on such last trading day,

debentures called for redemption may be surrendered for conversion until the close of business on the business day immediately preceding the redemption date,

during any period that the long-term credit rating assigned to the debentures by either of Moody's Investors Service Inc. or Standard & Poor's Ratings Group is at or below Ba1 or BB+, respectively, or if the debentures no longer are rated by either of

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these ratings services, or if the ratings for the debentures have been suspended by either of these ratings services, or

upon the occurrence of specified corporate transactions, including if we make a significant distribution to holders of our common stock or if we are a party to specified consolidations, mergers or transfers of all or substantially all of our properties and assets.

After giving effect to the adjustment in connection with our March 2005 stock split, a holder will receive 44.2404 shares of our common stock for each \$1,000 of debentures surrendered for conversion. This represents a conversion price of \$22.625 per share of our common stock. Based upon satisfaction of the market price trigger as of the end of the calendar quarter ended March 31, 2007, these debentures are convertible into shares of our common stock during the calendar quarter ending June 30, 2007. To date, \$890,000 of these debentures have been converted into 39,374 shares of common stock.

The debentures will mature on August 15, 2022, unless earlier redeemed, repurchased or converted. We may redeem some or all of the debentures at any time on or after August 18, 2007 at a price equal to 100 percent of the principal amount of the debentures to be redeemed plus any accrued and unpaid interest to the redemption date. Holders may require us to purchase for cash all or a portion of their debentures on August 15, 2007, August 15, 2012 and August 15, 2017 at a price equal to 100 percent of the principal amount of the debentures to be purchased plus accrued and unpaid interest to the purchase date.

We have assessed whether the embedded conversion feature within our 3.5% Convertible Debentures due 2022 should be bifurcated from the host instrument and accounted for as a derivative at fair value with changes in fair value recorded in earnings under paragraph 12 of FASB Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133). Based on our assessment, we have determined that the conversion feature is not required to be bifurcated under the provisions of Statement 133; EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock; FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity; or EITF Issue No. 05-2, The Meaning of Conventional Convertible Debt Instrument in EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock.

Potential dilutive common shares consist primarily of employee stock options. Employee stock options to purchase approximately 5,300 and 8,100 shares on March 30, 2007 and March 31, 2006, respectively, were outstanding, but were not included in the computation of net income per diluted common share because the effect would have been antidilutive as the options' exercise prices exceeded the average market price.

Note N Non-Operating Income (Loss)

The components of non-operating income (loss) are as follows:

	Quarter Ended		Three Quarters Ended	
	March	March	March	March
	30,	31,	30,	31,
	2007	2006	2007	2006
	(In millions)			
Gain from the sale of investments	\$ 2.9	\$	\$ 2.9	\$
Write-downs of investments for other than temporary decreases in market value			(19.8)	(6.4)
Royalty income (expense)	(0.1)	(0.2)	1.0	5.5
Equity income		0.2		0.1
	\$ 2.8	\$	\$ (15.9)	\$ (0.8)

Note O Guarantees and Commitments

During the quarter ended September 29, 2006, our Broadcast Communications segment entered into an agreement to sell products and services to a customer (the Customer) in connection with the Customer s prime contract (the Prime Contract) to provide 19 transmission stations to a state agency (the Agency). Pursuant to the terms of the Prime Contract, the Customer was required to post a \$20 million bond in favor of the Agency to secure the Customer s obligations under the Prime Contract. In order to facilitate the issuance of the bond, we entered into an agreement with the Customer and the bond surety to provide additional indemnity to the surety in the event the surety incurs any loss by reason of executing such bond. Our indemnity obligations are supported by, among other things, \$2 million in irrevocable standby letters of credit obtained by the Customer our favor; a guarantee from the

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Customer, as primary guarantor, in our favor of up to approximately \$11 million; personal guarantees from certain principals of the Customer, as secondary guarantors, in our favor of up to approximately \$11 million in the aggregate; an additional fee payable by the Customer to us of up to \$300,000; certain additional undertakings by the Customer to us with respect to the amount of our products and services to be sold by us to the Customer in connection with the Customer's Prime Contract with the Agency; an agreement by the Customer to use best efforts to include us in any resolution procedure should default be declared or a claim be made to the bond; and an agreement with the Customer, to the extent the Customer is able, recommending we step into the Customer's place in the event the Customer is not able to perform under the Prime Contract with the Agency. The bond may remain outstanding until February 2010. We believe that the technical, project and financial risks associated with our agreement to provide additional indemnity to the surety is remote and should not have a material effect on our financial position, results of operations or cash flows.

Note P Income Taxes

Our effective tax rate (income taxes as a percentage of income before income taxes and minority interest) was 23.4 percent in the third quarter of fiscal 2007, compared to 34.9 percent in the third quarter of fiscal 2006 and was 26.6 percent in the first three quarters of fiscal 2007, compared to 39.3 percent in the first three quarters of fiscal 2006. In the first quarter of fiscal 2007, a reduction in tax rate resulted from a favorable settlement that was approved by the United States Joint Committee on Taxation and related matters between us and the Internal Revenue Service concerning the tax audits for fiscal years 2001, 2002 and 2003, which settlement and related matters were in an aggregate amount of \$12 million. In the second quarter of fiscal 2007, a reduction in tax rate resulted from the re-enactment of the research and development credit for fiscal 2006, which reduced income taxes by \$1 million. In the third quarter of fiscal 2007, a reduction in tax rate resulted from the tax free nature of the combination with Stratex, which resulted in a \$163.4 million gain, partially offset by transaction-related costs incurred in our Harris Stratex Networks segment and cost-reduction initiatives in our Broadcast Communications segment in foreign jurisdictions where we have significant net operating losses and where we were unable to realize a tax benefit associated with these charges. In the third quarter and the first three quarters of fiscal 2006, the effective tax rate was impacted significantly by charges related to product discontinuances in our Harris Stratex Networks segment (formerly our Microwave Communications segment) and cost-reduction initiatives and acquisitions in our Broadcast Communications segment in foreign jurisdictions where we have significant net operating losses and where we were unable to realize a tax benefit associated with these charges.

Note Q Business Segments

We are structured primarily around the markets we serve and operate in four business segments—Government Communications Systems, RF Communications, Harris Stratex Networks (formerly Microwave Communications) and Broadcast Communications. Our Government Communications Systems segment engages in advanced research and develops, designs, produces and services advanced communication and information processing systems, primarily for the U.S. Department of Defense and various other agencies of the U.S. Government. Our RF Communications segment performs advanced research and develops, designs, manufactures, sells and services secure tactical radio products, primarily for the U.S. Department of Defense and various international defense agencies. Our Harris Stratex Networks segment, a majority-owned, publicly-traded subsidiary, designs, manufactures and sells end-to-end wireless transmission solutions for mobile and fixed-wireless service providers and private networks. Our Broadcast Communications segment designs, manufactures, sells and services television and radio transmission products; high-performance video systems and products; software solutions related to automation, asset management control and workflow; and broadcast networking systems and products, primarily for radio and television broadcasters as well as governmental agencies. Within each of our business segments, there are multiple program areas and product lines that logically aggregate into our four business segments described above.

The accounting policies of our operating segments are the same as those described in Note 1: Significant Accounting Policies in our Fiscal 2006 Form 10-K. We evaluate each segment's performance based on its operating income or loss, which we define as profit or loss from operations before income taxes and minority interest excluding interest income and expense, equity income and gains or losses from securities and other investments. Intersegment sales among our Government Communications Systems, RF Communications and Broadcast Communications

segments are transferred at cost to the buying segment and the sourcing segment recognizes a normal profit that is eliminated. Intersegment sales between our Harris Stratex Networks segment, on the one hand, and any of our Government Communications Systems, RF Communications and Broadcast Communications segments, on the other hand, are recorded as arms length transactions. The Corporate eliminations line item in the tables below represents the elimination of intersegment sales and their related profits. Headquarters expense represents the portion of corporate expenses not allocated to the business segments.

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Total assets by business segment are summarized below:

	March 30, 2007	June 30, 2006
	(In millions)	
Total Assets		
Government Communications Systems	\$ 718.6	\$ 697.6
RF Communications	341.6	297.4
Harris Stratex Networks	881.0	340.7
Broadcast Communications	1,305.4	1,336.8
Headquarters	694.2	469.8
	\$ 3,940.8	\$ 3,142.3

Segment revenue, segment operating income (loss) and a reconciliation of segment operating income (loss) to total income before income taxes and minority interest follows:

	Quarter Ended		Three Quarters Ended	
	March 30, 2007	March 31, 2006	March 30, 2007	March 31, 2006
	(In millions)			
Revenue				
Government Communications Systems	\$ 500.3	\$ 456.8	\$ 1,443.2	\$ 1,332.8
RF Communications	304.4	214.2	853.6	565.9
Harris Stratex Networks	139.0	73.7	333.9	238.2
Broadcast Communications	138.6	143.1	433.4	366.2
Corporate eliminations	(9.9)	(6.7)	(28.7)	(20.7)
	\$ 1,072.4	\$ 881.1	\$ 3,035.4	\$ 2,482.4
Income Before Income Taxes and Minority Interest				
<i>Segment Operating Income (Loss):</i>				
Government Communications Systems	\$ 63.9	\$ 55.0	\$ 172.7	\$ 162.3
RF Communications	107.4	75.6	290.8	195.2
Harris Stratex Networks(1)	141.0	1.0	157.0	(25.5)
Broadcast Communications(2)	(18.1)	13.8	3.7	5.0
Headquarters expense(3)	(16.2)	(23.8)	(50.2)	(55.0)
Corporate eliminations	(2.8)	(2.5)	(11.2)	(11.2)
Non-operating income (loss)(4)	2.8		(15.9)	(0.8)
Net interest	(5.9)	(7.8)	(20.6)	(18.1)
	\$ 272.1	\$ 111.3	\$ 526.3	\$ 251.9

- (1) The operating income in our Harris Stratex Network segment in the quarter and three quarters ended March 30, 2007 included a \$163.4 million pre-tax gain recorded on the combination of our Microwave Communications Division with Stratex, partially offset by \$23.0 million of transaction-related costs such as the write-off of in-process research and development, the impact of a step up in inventory and fixed assets; and integration costs of \$3.5 million in the quarter and \$5.2 million in the three quarters ended March 30, 2007. The operating income (loss) in our Harris Stratex Networks segment in the quarter and three quarters ended March 31, 2006 included \$0.3 million and \$35.8 million, respectively, in inventory write-downs and other charges associated with product discontinuances and the shutdown of manufacturing activities in Montreal, Canada.
- (2) The operating income (loss) in our Broadcast Communications segment in the quarter and three quarters ended March 30, 2007 included \$4.2 million in severance, facility and other costs associated with continuing cost-reduction initiatives and an \$18.9 million write-down of capitalized software as a result of management's decision to discontinue an automation software development effort. The operating income in our Broadcast Communications segment in the quarter and three quarters ended March 31, 2006 included \$3.2 million and \$9.7 million, respectively, in write-offs of in-process research and development and the impact of a step up in inventory and other costs associated with the segment's acquisition of Leitch Technology Corporation (Leitch). The operating income in our Broadcast Communications segment in the quarter and three quarters ended March 31, 2006 also included \$0.8 million and \$24.0 million, respectively, in severance, facility and other costs associated with continuing consolidation of manufacturing locations and cost-reduction initiatives.
- (3) Headquarters expense for the quarter and three quarters ended March 31, 2006 included a \$5.4 million charge related to our arbitration with Bourdex Telecommunications Limited (Bourdex).
- (4) Non-operating income (loss) includes equity investment losses, royalties and related intellectual property expenses and write-downs of investments and expenses associated with our selected investments. In the first quarter of fiscal 2007, we recorded a \$19.8 million impairment to our investment in Terion. Additional information regarding non-operating income (loss) is set forth in Note N Non-Operating Income (Loss).

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Harris Corporation

We have reviewed the condensed consolidated balance sheet of Harris Corporation and subsidiaries as of March 30, 2007, and the related condensed consolidated statement of income for the quarter and three quarters ended March 30, 2007 and March 31, 2006, and the condensed consolidated statement of cash flows for the three quarters ended March 30, 2007 and March 31, 2006. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Harris Corporation and subsidiaries as of June 30, 2006, and the related consolidated statements of income, cash flows, and comprehensive income and shareholders' equity for the year then ended, not presented herein, and in our report dated August 25, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 30, 2006, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Certified Public Accountants

Jacksonville, Florida
May 4, 2007

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to assist in an understanding of Harris. MD&A is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to, our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes to Condensed Consolidated Financial Statements (Notes) appearing elsewhere in this Quarterly Report on Form 10-Q. In addition, reference should be made to our audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and MD&A included in our Fiscal 2006 Form 10-K. Except for the historical information contained herein, the discussions in MD&A contain forward-looking statements that involve risks and uncertainties. Our actual results for future periods could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below under Forward-Looking Statements and Factors that May Affect Future Results.

The following is a list of the sections of MD&A contained in this Quarterly Report on Form 10-Q, together with our perspective on the contents of these sections of MD&A, which we hope will make reading these pages more productive:

Operations Review an analysis of our consolidated results of operations and of the results in each of our four operating segments, to the extent the operating segment results are helpful to an understanding of our business as a whole, for the periods presented in our Condensed Consolidated Financial Statements.

Liquidity and Capital Resources an analysis of cash flows, common stock repurchases, dividend policy, capital structure and resources, off-balance sheet arrangements, commercial commitments and contractual obligations.

Critical Accounting Policies and Estimates information about accounting policies that require critical judgments and estimates and of accounting pronouncements that have been issued but not yet implemented by us and their potential impact.

Forward-Looking Statements and Factors that May Affect Future Results cautionary information about forward-looking statements and a description of certain risks and uncertainties that could cause our actual results to differ materially from our historical results or our current expectations or projections.

OPERATIONS REVIEW

Highlights

Operations results for the third quarter of fiscal 2007 include:

Net income increased from \$72.5 million, or \$.52 per diluted share, in the third quarter of fiscal 2006 to \$214.9 million, or \$1.52 per diluted share, in the third quarter of fiscal 2007. The current-year quarter was impacted by a \$143.1 million after-tax gain on the combination with Stratex, \$13.1 million of after-tax costs associated with the combination with Stratex and \$15.6 million of after-tax charges associated with cost-reduction actions and write-down of capitalized software in our Broadcast Communications segment;

Revenue increased 21.7 percent from \$881.1 million in the third quarter of fiscal 2006 to \$1,072.4 million in the third quarter of fiscal 2007;

Our Government Communications Systems segment revenue increased by 9.5 percent to \$500.3 million and operating income increased by 16.2 percent to \$63.9 million compared to the prior-year quarter;

Our RF Communications segment achieved revenue growth of 42.1 percent and operating income increased 42.1 percent compared to the prior-year quarter;