

HARRIS CORP /DE/  
Form 10-Q  
April 30, 2014  
Table of Contents

**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 28, 2014

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**  
(State or other jurisdiction of  
incorporation or organization)

**1025 West NASA Boulevard**

**Melbourne, Florida**  
(Address of principal executive offices)

**(321) 727-9100**

**34-0276860**  
(I.R.S. Employer Identification No.)

**32919**  
(Zip Code)

(Registrant's telephone number, including area code)

No changes

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

**(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  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  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.

Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

Large accelerated filer

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

The number of shares outstanding of the registrant's common stock as of April 25, 2014 was 106,499,358 shares.

**Table of Contents**

**HARRIS CORPORATION**

**FORM 10-Q**

**For the Quarter Ended March 28, 2014**

**INDEX**

	<b>Page</b>
<b><u>Part I. Financial Information:</u></b>	
<b><u>Item 1. Financial Statements (Unaudited):</u></b>	
<u>Condensed Consolidated Statement of Income for the Quarter and Three Quarters ended March 28, 2014 and March 29, 2013</u>	1
<u>Condensed Consolidated Statement of Comprehensive Income for the Quarter and Three Quarters ended March 28, 2014 and March 29, 2013</u>	2
<u>Condensed Consolidated Balance Sheet at March 28, 2014 and June 28, 2013</u>	3
<u>Condensed Consolidated Statement of Cash Flows for the Three Quarters ended March 28, 2014 and March 29, 2013</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Report of Independent Registered Certified Public Accounting Firm</u>	15
<b><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	16
<b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	28
<b><u>Item 4. Controls and Procedures</u></b>	29
<b><u>Part II. Other Information:</u></b>	
<b><u>Item 1. Legal Proceedings</u></b>	29
<b><u>Item 1A. Risk Factors</u></b>	30
<b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	30
<b><u>Item 3. Defaults Upon Senior Securities</u></b>	31
<b><u>Item 4. Mine Safety Disclosures</u></b>	31
<b><u>Item 5. Other Information</u></b>	31
<b><u>Item 6. Exhibits</u></b>	31
<b><u>Signature</u></b>	32
<b><u>Exhibit Index</u></b>	

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		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions, except per share amounts)			
Revenue from product sales and services	\$ 1,267.5	\$ 1,203.7	\$ 3,682.6	\$ 3,752.1
Cost of product sales and services	(841.0)	(803.5)	(2,410.9)	(2,497.2)
Engineering, selling and administrative expenses	(203.2)	(202.5)	(615.7)	(613.8)
Non-operating income (loss)	0.2	(0.5)	4.7	(1.6)
Interest income	0.7	0.8	2.0	1.8
Interest expense	(23.2)	(27.6)	(70.6)	(83.1)
Income from continuing operations before income taxes	201.0	170.4	592.1	558.2
Income taxes	(63.9)	(45.8)	(190.5)	(166.8)
Income from continuing operations	137.1	124.6	401.6	391.4
Discontinued operations, net of income taxes	4.1	(30.3)	1.4	(338.3)
Net income	141.2	94.3	403.0	53.1
Noncontrolling interests, net of income taxes	0.2	0.5	0.4	4.4
Net income attributable to Harris Corporation	\$ 141.4	\$ 94.8	\$ 403.4	\$ 57.5
<b>Amounts attributable to Harris Corporation common shareholders</b>				
Income from continuing operations	\$ 137.3	\$ 125.1	\$ 402.0	\$ 395.8
Discontinued operations, net of income taxes	4.1	(30.3)	1.4	(338.3)
Net income	\$ 141.4	\$ 94.8	\$ 403.4	\$ 57.5
<b>Net income per common share attributable to Harris Corporation common shareholders</b>				
Basic net income per common share attributable to Harris Corporation common shareholders				
Continuing operations	\$ 1.28	\$ 1.12	\$ 3.75	\$ 3.52
Discontinued operations	0.04	(0.27)	0.02	(3.01)
	\$ 1.32	\$ 0.85	\$ 3.77	\$ 0.51
Diluted net income per common share attributable to Harris Corporation common shareholders				
Continuing operations	\$ 1.27	\$ 1.12	\$ 3.72	\$ 3.50
Discontinued operations	0.04	(0.27)	0.01	(2.99)

Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

	\$ 1.31	\$ 0.85	\$ 3.73	\$ 0.51
Cash dividends paid per common share	\$ 0.42	\$ 0.37	\$ 1.26	\$ 1.11
Basic weighted average common shares outstanding	106.2	110.6	106.3	111.5
Diluted weighted average common shares outstanding	107.4	111.2	107.4	112.1

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

**Table of Contents****HARRIS CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME****(Unaudited)**

	Quarter Ended		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions)			
Net income	\$ 141.2	\$ 94.3	\$ 403.0	\$ 53.1
Other comprehensive income (loss):				
Foreign currency translation	(3.7)	(55.5)	14.8	(21.8)
Net unrealized gain (loss) on hedging derivatives, net of income taxes	(0.1)	0.3	(0.5)	0.1
Net unrealized loss on securities available-for-sale, net of income taxes				(2.7)
Amortization of loss on treasury lock, net of income taxes	0.1	0.1	0.4	0.4
Net unrecognized post-retirement obligations, net of income taxes	10.5	1.7	11.8	3.3
Other comprehensive income (loss), net of income taxes	6.8	(53.4)	26.5	(20.7)
Total comprehensive income	148.0	40.9	429.5	32.4
Comprehensive loss attributable to noncontrolling interests	0.2	0.5	0.4	4.4
Total comprehensive income attributable to Harris Corporation	\$ 148.2	\$ 41.4	\$ 429.9	\$ 36.8

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

**Table of Contents**

**HARRIS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

(Unaudited)

	March 28, 2014	June 28, 2013
	(In millions, except shares)	
<b>Assets</b>		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 349.6	\$ 321.0
Receivables	772.7	696.8
Inventories	674.0	668.7
Income taxes receivable	53.8	36.2
Current deferred income taxes	113.4	121.2
Other current assets	89.8	77.2
Assets of discontinued operations		27.0
<b>Total current assets</b>	<b>2,053.3</b>	<b>1,948.1</b>
<i>Non-current Assets</i>		
Property, plant and equipment	685.5	653.2
Goodwill	1,703.6	1,692.0
Intangible assets	270.8	308.1
Non-current deferred income taxes	87.9	124.8
Other non-current assets	157.5	132.2
<b>Total non-current assets</b>	<b>2,905.3</b>	<b>2,910.3</b>
	<b>\$ 4,958.6</b>	<b>\$ 4,858.4</b>
<b>Liabilities and Equity</b>		
<i>Current Liabilities</i>		
Short-term debt	\$ 81.3	\$ 144.6
Accounts payable	355.5	339.5
Compensation and benefits	176.7	234.3
Other accrued items	261.9	255.8
Advance payments and unearned income	298.2	308.0
Current deferred income taxes	0.9	1.8
Current portion of long-term debt	1.4	13.4
<b>Total current liabilities</b>	<b>1,175.9</b>	<b>1,297.4</b>
<i>Non-current Liabilities</i>		
Long-term debt	1,575.8	1,577.1
Long-term contract liability	87.3	96.8
Other long-term liabilities	324.6	325.9
<b>Total non-current liabilities</b>	<b>1,987.7</b>	<b>1,999.8</b>
<i>Equity</i>		
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 106,471,958 shares at March 28, 2014 and 106,933,188 shares at June 28, 2013	106.5	106.9
Other capital	522.0	433.1



Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

Retained earnings	1,199.0	1,079.9
Accumulated other comprehensive loss	(32.1)	(58.6)
Total shareholders' equity	1,795.4	1,561.3
Noncontrolling interests	(0.4)	(0.1)
Total equity	1,795.0	1,561.2
	\$ 4,958.6	\$ 4,858.4

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

**Table of Contents**

**HARRIS CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

(Unaudited)

	Three Quarters Ended	
	March 28, 2014	March 29, 2013
	(In millions)	
<b>Operating Activities</b>		
Net income	\$ 403.0	\$ 53.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	148.6	164.3
Share-based compensation	28.5	25.6
Non-current deferred income taxes	29.8	2.9
Gain on sale of securities available-for-sale		(9.0)
(Gain) loss on sale of discontinued operations	(1.4)	23.6
Impairment of assets of discontinued operations		320.7
(Increase) decrease in:		
Accounts and notes receivable	(75.8)	88.0
Inventories	(5.3)	(31.7)
Increase (decrease) in:		
Accounts payable and accrued expenses	(46.2)	(145.3)
Advance payments and unearned income	(9.7)	78.6
Income taxes	(10.8)	(66.5)
Other	(6.7)	8.9
Net cash provided by operating activities	454.0	513.2
<b>Investing Activities</b>		
Cash paid for intangible assets	(3.3)	
Cash paid for cost-method investment		(0.8)
Additions of property, plant and equipment	(139.7)	(124.9)
Additions of capitalized software		(6.6)
Proceeds from sale of discontinued operations	27.0	147.4
Proceeds from sale of securities available-for-sale		11.9
Net cash provided by (used in) investing activities	(116.0)	27.0
<b>Financing Activities</b>		
Proceeds from borrowings	5.6	17.1
Repayments of borrowings	(82.4)	(140.9)
Proceeds from exercises of employee stock options	133.9	84.7
Repurchases of common stock	(222.1)	(274.6)
Cash dividends	(135.5)	(124.6)
Net cash used in financing activities	(300.5)	(438.3)
Effect of exchange rate changes on cash and cash equivalents	(8.9)	1.1
<b>Net increase in cash and cash equivalents</b>	<b>28.6</b>	<b>103.0</b>

Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

Cash and cash equivalents, beginning of year	321.0	356.0
<b>Cash and cash equivalents, end of quarter</b>	<b>\$ 349.6</b>	<b>\$ 459.0</b>

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

**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****March 28, 2014****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 consolidated subsidiaries. As used in these Notes to Condensed Consolidated Financial Statements (Unaudited) (these Notes), the terms Harris, Company, we, our and us refer to Harris Corporation and its consolidated subsidiaries. Intracompany 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 (GAAP) 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. GAAP for annual financial statements. 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 and three quarters ended March 28, 2014 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 28, 2013 has been derived from our audited financial statements but does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. We provide complete, audited 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 June 28, 2013 (our Fiscal 2013 Form 10-K).

See Note B *Discontinued Operations* for information regarding discontinued operations. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in this Report relate solely to our continuing operations.

At the beginning of the first quarter of fiscal 2014, to leverage the breadth of our information technology (IT) enterprise network and information assurance capabilities for the IT Services market, we began managing our cyber security network testing operation as part of our Integrated Network Solutions segment rather than our Government Communications Systems segment. As a result, we reassigned \$2.4 million of goodwill (determined on a relative fair value basis) from our Government Communications Systems segment to our Integrated Network Solutions segment. The historical results, discussion and presentation of our business segments as set forth in this Report have been adjusted to reflect the impact of this change to our business segment reporting structure for all periods presented in this Report.

*Use of Estimates*

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the amounts reported in the accompanying condensed consolidated financial statements and these Notes. These estimates and assumptions are based on experience and other information available prior to issuance of the accompanying condensed consolidated financial statements and these Notes. Materially different results can occur as circumstances change and additional information becomes known.

*Adoption of New Accounting Standards*

In the first quarter of fiscal 2014, we adopted an accounting standard issued by the Financial Accounting Standards Board (FASB) that requires entities to provide details of reclassifications in the disclosure of changes in accumulated other comprehensive income (AOCI) balances. In addition, for significant items reclassified out of AOCI in the fiscal quarter, entities must provide information about the effects on net income together, in one location, on the face of the statement where net income is presented, or as a separate disclosure in the notes. For items not reclassified to net income in their entirety in the fiscal quarter, entities must cross-reference to the note where additional details about the effects of the reclassifications are disclosed. The adoption of this update did not impact our financial position, results of operations or cash flows.

*Accounting Standards Issued But Not Yet Effective*

In March 2013, the FASB issued an accounting standards update that clarifies previous U.S. GAAP regarding the release of cumulative translation adjustment (CTA) into earnings in certain situations. When an entity ceases to have a controlling financial interest in a subsidiary or group of assets within a consolidated foreign entity and the sale or transfer of such subsidiary or group of assets results in the complete or

Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

substantially complete liquidation of such foreign entity, any related CTA should be reclassified from AOCI and included in the calculation of the gain or loss on the sale or transfer. Upon a sale or complete or substantially complete

**Table of Contents**

liquidation of an investment in a consolidated foreign entity that results in either (1) a loss of a controlling financial interest in the foreign entity or (2) an acquirer obtaining control of an acquiree in which the acquirer held an equity interest immediately before the acquisition date in a business combination achieved in stages, any related CTA should be reclassified from AOCI and included in the calculation of the gain or loss on the sale or liquidation. For a sale of part of an ownership interest in a foreign investment that is accounted for as an equity method investment, a pro rata portion of CTA attributable to that investment should be reclassified from AOCI and included in the calculation of the gain or loss on the sale. This standard is to be applied prospectively and is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013, which for us is our fiscal 2015. The adoption of this standard will not have a material impact on our financial position, results of operations or cash flows.

In July 2013, the FASB issued an accounting standards update that requires unrecognized tax benefits to be presented as a decrease in a net operating loss, similar tax loss or tax credit carryforward if certain criteria are met. This standard is to be applied prospectively and is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013, which for us is our fiscal 2015. Retrospective application is permitted. The adoption of this standard is not expected to have a material impact on our financial position, results of operations or cash flows.

In April 2014, the FASB issued an accounting standards update that raises the threshold for disposals to qualify as discontinued operations and allows companies to have significant continuing involvement and continuing cash flows with discontinued operations. This standard also requires additional disclosures for discontinued operations and new disclosures for individually material disposal transactions that do not meet the definition of a discontinued operation. This standard is to be applied prospectively and is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2014, which for us is our fiscal 2016. The adoption of this standard is not expected to have a material impact on our financial position, results of operations or cash flows.

**Note B Discontinued Operations**

In the third quarter of fiscal 2012, our Board of Directors approved a plan to exit our cyber integrated solutions operation ( CIS ), which provided remote cloud hosting, and to dispose of the related assets, and we reported CIS as discontinued operations beginning with our financial results presented in our Quarterly Report on Form 10-Q for the third quarter of fiscal 2012. On August 27, 2013, we completed the sale of the remaining assets of CIS for \$35 million, including \$28 million in cash and a \$7 million subordinated promissory note. In the fourth quarter of fiscal 2012, our Board of Directors approved a plan to divest our broadcast communications operation ( Broadcast Communications ), which provided digital media management solutions in support of broadcast customers, and we reported Broadcast Communications as discontinued operations beginning with our financial results presented in our Annual Report on Form 10-K for fiscal 2012. On February 4, 2013, we completed the sale of Broadcast Communications to an affiliate of The Gores Group, LLC pursuant to a definitive Asset Sale Agreement entered into December 5, 2012 for \$225 million, including \$160 million in cash, subject to customary adjustments (including a post-closing working capital adjustment, which is currently in litigation), a \$15 million subordinated promissory note and an earnout of up to \$50 million based on future performance. Should the litigation related to the post-closing working capital adjustment to the purchase price be resolved unfavorably to us, we believe such an outcome would not have a material adverse effect on our financial condition, results of operations or cash flows. Both CIS and Broadcast Communications were formerly part of our Integrated Network Solutions segment.

In the third quarter of fiscal 2014, discontinued operations reflected a \$4.8 million tax benefit (primarily related to the realization of additional tax deductions in respect of Broadcast Communications on various fiscal 2013 tax returns compared with our recorded estimates at the end of fiscal 2013), partially offset by a \$1.0 million (\$0.7 million after-tax) increase in the loss on sale of Broadcast Communications from miscellaneous adjustments for contingencies related to the disposition. In the third quarter of fiscal 2013, discontinued operations reflected the results of operations for Broadcast Communications and CIS, including a loss of \$23.4 million (\$23.6 million after-tax) on the sale of Broadcast Communications during the third quarter of fiscal 2013.

In the first three quarters of fiscal 2014, discontinued operations reflected a \$4.8 million tax benefit (primarily related to the realization of additional tax deductions in respect of Broadcast Communications on various fiscal 2013 tax returns compared with our recorded estimates at the end of fiscal 2013) and a \$3.1 million (\$1.9 million after-tax) gain on the sale of the remaining assets of CIS, partially offset by a \$7.6 million (\$5.3 million after-tax) increase in the loss on sale of Broadcast Communications from miscellaneous adjustments for contingencies related to the disposition. In the first three quarters of fiscal 2013, the results of operations for Broadcast Communications and CIS included non-cash impairment charges of \$314.4 million (\$297.3 million after-tax) and \$6.3 million (\$3.9 million after-tax), respectively.

**Table of Contents**

Summarized financial information for our discontinued operations related to CIS and Broadcast Communications is as follows:

	Quarter Ended		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions)			
Revenue from product sales and services	\$	\$ 38.0	\$	\$ 270.9
Loss before income taxes	\$	\$ (5.0)	\$	\$ (331.6)
Income taxes		(1.7)		16.9
Loss from discontinued operations		(6.7)		(314.7)
Gain (loss) on sale of discontinued operations, net of income tax benefit of \$5.1 million and \$5.9 million for the quarter and three quarters ended March 28, 2014, respectively	4.1	(23.6)	1.4	(23.6)
Discontinued operations, net of income taxes	\$ 4.1	\$ (30.3)	\$ 1.4	\$ (338.3)
			March 28, 2014	June 28, 2013
			(In millions)	
Property, plant and equipment			\$	\$ 27.0

Unless otherwise specified, the information set forth in these Notes, other than this *Note B Discontinued Operations*, relates solely to our continuing operations.

**Note C Stock Options and Other Share-Based Compensation**

During the first three quarters ended March 28, 2014, 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 for the quarter and three quarters ended March 28, 2014 was \$10.1 million and \$28.5 million, respectively. The compensation cost related to our share-based awards that was charged against income for the quarter and three quarters ended March 29, 2013 was \$10.6 million and \$25.6 million, respectively.

Grants to employees under our SIPs during the quarter ended March 28, 2014 consisted of 1,850 stock options, 400 performance share unit awards and 37,800 restricted stock unit awards. Grants to employees under our SIPs during the three quarters ended March 28, 2014 consisted of 1,398,050 stock options, 310,950 performance share unit awards and 268,150 restricted stock unit awards. The fair value as of the grant date of each option award was determined using the Black-Scholes-Merton option-pricing model which used the following assumptions: expected dividend yield of 2.80 percent; expected volatility of 30.65 percent; risk-free interest rates averaging 1.66 percent; and expected term in years of 5.10. The fair value as of the grant date of each performance share unit award was determined based on a fair value from a multifactor Monte Carlo valuation model that simulates our stock price and total shareholder return (TSR) relative to other companies in our TSR peer group, less a discount to reflect the delay in payment of cash dividend-equivalents that are made only upon vesting. The fair value as of the grant date of each restricted stock unit award was determined based on our stock price at the close of business on the grant date.

**Table of Contents****Note D Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss at March 28, 2014 and June 28, 2013 were as follows:

	March 28, 2014 (1)	June 28, 2013
	(In millions)	
Foreign currency translation	\$ (12.4)	\$ (27.2)
Net unrealized gain on hedging derivatives, net of income taxes	0.3	0.8
Unamortized loss on treasury lock, net of income taxes	(2.0)	(2.4)
Unrecognized post-retirement obligations, net of income taxes of \$8.4 million and \$15.8 million at March 28, 2014 and June 28, 2013, respectively	(18.0)	(29.8)
	\$ (32.1)	\$ (58.6)

(1) Reclassifications out of accumulated other comprehensive loss to earnings were not material for the three quarters ended March 28, 2014 or for the three quarters ended March 29, 2013.

**Note E Receivables**

Receivables are summarized below:

	March 28, 2014	June 28, 2013
	(In millions)	
Accounts receivable	\$ 620.0	\$ 569.3
Unbilled costs and accrued earnings on cost-plus contracts	145.1	120.8
Notes receivable due within one year, net	15.1	15.2
	780.2	705.3
Less allowances for collection losses	(7.5)	(8.5)
	\$ 772.7	\$ 696.8

**Note F Inventories**

Inventories are summarized below:

	March 28, 2014	June 28, 2013
	(In millions)	
Unbilled costs and accrued earnings on fixed-price contracts	\$ 358.3	\$ 386.3
Finished products	122.0	123.9
Work in process	63.4	35.0
Raw materials and supplies	130.3	123.5
	\$ 674.0	\$ 668.7



Unbilled costs and accrued earnings on fixed-price contracts were net of progress payments of \$121.9 million at March 28, 2014 and \$145.3 million at June 28, 2013.

**Note G Property, Plant and Equipment**

Property, plant and equipment are summarized below:

	March 28, 2014	June 28, 2013
	(In millions)	
Land	\$ 12.6	\$ 13.0
Software capitalized for internal use	129.4	110.5
Buildings	473.9	420.4
Machinery and equipment	1,063.8	1,022.0
	1,679.7	1,565.9
Less allowances for depreciation and amortization	(994.2)	(912.7)
	\$ 685.5	\$ 653.2

**Table of Contents**

Depreciation and amortization expense related to property, plant and equipment for the quarter and three quarters ended March 28, 2014 was \$32.6 million and \$102.2 million, respectively. Depreciation and amortization expense related to property, plant and equipment for the quarter and three quarters ended March 29, 2013 was \$33.9 million and \$103.6 million, respectively.

**Note H Accrued Warranties**

Changes in our liability for standard product warranties, 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 three quarters ended March 28, 2014 were as follows:

	(In millions)
Balance at June 28, 2013	\$ 39.9
Warranty provision for sales made during the three quarters ended March 28, 2014	10.2
Settlements made during the three quarters ended March 28, 2014	(11.8)
Other adjustments to warranty liability, including those for foreign currency translation, during the three quarters ended March 28, 2014	(3.0)
<b>Balance at March 28, 2014</b>	<b>\$ 35.3</b>

We also sell extended product warranties and recognize revenue from these arrangements over the warranty period. Costs of warranty services under these arrangements are recognized as incurred. Deferred revenue associated with extended product warranties at March 28, 2014 and June 28, 2013 was \$34.3 million and \$34.6 million, respectively, and is included within the Advance payments and unearned income and Other long-term liabilities line items in the accompanying Condensed Consolidated Balance Sheet (Unaudited).

**Note I Income From Continuing Operations Per Share**

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

	Quarter Ended		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions, except per share amounts)			
Income from continuing operations	\$ 137.3	\$ 125.1	\$ 402.0	\$ 395.8
Adjustments for participating securities outstanding	(0.9)	(0.9)	(2.9)	(3.1)
<b>Income from continuing operations used in per basic and diluted common share calculations (A)</b>	<b>\$ 136.4</b>	<b>\$ 124.2</b>	<b>\$ 399.1</b>	<b>\$ 392.7</b>
Basic weighted average common shares outstanding (B)	106.2	110.6	106.3	111.5
Impact of dilutive stock options and equity awards	1.2	0.6	1.1	0.6
Diluted weighted average common shares outstanding (C)	107.4	111.2	107.4	112.1
Income from continuing operations per basic common share (A)/(B)	\$ 1.28	\$ 1.12	\$ 3.75	\$ 3.52
Income from continuing operations per diluted common share (A)/(C)	\$ 1.27	\$ 1.12	\$ 3.72	\$ 3.50

Potential dilutive common shares primarily consist of employee stock options and performance share and performance share unit awards. Employee stock options to purchase approximately 868,589 and 3,156,774 shares of our common stock were outstanding at March 28, 2014 and March 29, 2013, respectively, but were not included as dilutive stock options in the computations of income from continuing operations per diluted common share because the effect would have been antidilutive because the options exercise prices exceeded the average market price of

our common stock.

**Table of Contents****Note J Non-Operating Income (Loss)**

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

	Quarter Ended		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions)			
Gain on sale of securities available-for-sale	\$	\$	\$	\$ 9.0
Impairment of cost-method investment				(5.8)
Impairment of investment in joint venture				(6.4)
Net income (loss) related to intellectual property matters	0.2	(0.5)	4.7	1.5
Other				0.1
	\$ 0.2	\$ (0.5)	\$ 4.7	\$ (1.6)

**Note K Income Taxes**

Our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) was 31.8 percent in the third quarter of fiscal 2014 compared with 26.9 percent in the third quarter of fiscal 2013. In the third quarter of fiscal 2014, our effective tax rate benefited from additional deductions (primarily related to manufacturing) and additional research credits claimed on our fiscal 2013 tax return compared with our recorded estimates at the end of fiscal 2013. In the third quarter of fiscal 2013, legislation was enacted that restored the U.S. Federal income tax credit for qualifying research and development expenses. This resulted in a benefit of approximately \$7 million (approximately 4 percent of income from continuing operations before income taxes) in calculating our effective tax rate in the third quarter of fiscal 2013. Additionally, in the third quarter of fiscal 2013, our effective tax rate benefited from additional deductions (primarily related to manufacturing) claimed on our fiscal 2012 tax return compared with our recorded estimates at the end of fiscal 2012 and favorable tax settlements of approximately \$2 million.

Our effective tax rate was 32.2 percent in the first three quarters of fiscal 2014 compared with 29.9 percent in the first three quarters of fiscal 2013. In the first three quarters of fiscal 2014, our effective tax rate benefited from the discrete items noted above regarding the third quarter of fiscal 2014, as well as from the settlement of a state tax audit and a refund resulting from a consolidation of foreign subsidiaries. In the first three quarters of fiscal 2013, our effective tax rate benefited from the discrete items noted above regarding the third quarter of fiscal 2013, as well as from tax elections resulting in the deductibility of certain expenses, a reduction in estimated non-U.S. tax liabilities, a reduction in state taxes due to changes in certain state tax laws and confirmation of the availability of certain acquired tax attributes due to audit resolution.

**Note L 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.

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

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 when pricing the asset or liability developed using the best information available in the circumstances.

**Table of Contents**

The following table presents the fair value hierarchy of our assets and liabilities measured at fair value on a recurring basis (at least annually) as of March 28, 2014:

	Level 1	Level 2	Level 3	Total
	(In millions)			
<b>Assets</b>				
Deferred compensation plan investments: (1)				
Money market fund	\$ 33.4	\$	\$	\$ 33.4
Stock fund	53.6			53.6
Equity security	33.3			33.3
Pension plan investments: (2)				
Stock funds	47.1			47.1
Government securities	39.9			39.9
Foreign currency forward contracts (3)		0.8		0.8
<b>Liabilities</b>				
Deferred compensation plans (4)	115.5			115.5
Foreign currency forward contracts (5)		0.5		0.5

- (1) 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).
- (2) Represents investments related to our defined benefit plan in the United Kingdom, which we include in the Other non-current assets line item 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.

The following table presents the carrying amounts and estimated fair values of our significant financial instruments that were 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):

	March 28, 2014		June 28, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
<b>Financial Liabilities</b>				
Long-term debt (including current portion) (1)	\$ 1,577.2	\$ 1,779.0	\$ 1,590.5	\$ 1,763.1

- (1) The fair value was estimated using a market approach based on quoted market prices for our debt traded in the secondary market. If our long-term debt in our balance sheet were measured at fair value, it would be categorized in Level 2 of the fair value hierarchy.

**Note M 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.

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

At March 28, 2014, we had open foreign currency forward contracts with a notional amount of \$116.2 million, of which \$100.9 million were classified as fair value hedges and \$15.3 million were classified as cash flow hedges. This compares with open foreign currency forward contracts with a notional amount of \$58.5 million at June 28, 2013, of which \$47.7 million were classified as fair value hedges and \$10.8 million were classified as cash flow hedges. At March 28, 2014, contract expiration dates ranged from less than 1 month to 4 months with a weighted average contract life of 1 month.

---

## **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 March 28, 2014, we had outstanding foreign currency forward contracts denominated in the British Pound, Norwegian Krone, Singapore Dollar, Mexican Peso, Euro and Australian Dollar to hedge certain balance sheet items. The net gains or losses on foreign currency forward contracts designated as fair value hedges were not material for the quarter and three quarters ended March 28, 2014 or for the quarter and three quarters ended March 29, 2013. In addition, no amounts were recognized in earnings in the quarter and three quarters ended March 28, 2014 or in the quarter and three quarters ended March 29, 2013 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 to suppliers, future committed sales to customers and intersegment transactions. These derivatives are being used to hedge currency exposures from cash flows anticipated in all of our business segments, primarily related to programs in Brazil. We also have hedged U.S. Dollar payments to suppliers to maintain our anticipated profit margins in our international operations. As of March 28, 2014, we had outstanding foreign currency forward contracts denominated in the Brazilian Real, British Pound, Australian Dollar, Euro 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 related hedged items.

The net gains or losses from cash flow hedges recognized in earnings or recorded in other comprehensive income, including gains or losses related to hedge ineffectiveness, were not material in the quarter and three quarters ended March 28, 2014 or in the quarter and three quarters ended March 29, 2013. We do not expect the net gains or losses recognized in the Accumulated other comprehensive loss line item in the accompanying Condensed Consolidated Balance Sheet (Unaudited) as of March 28, 2014 that will be reclassified to earnings from other comprehensive income within the next 12 months to be material.

### *Credit Risk*

We are exposed to the risk of credit losses from non-performance by counterparties to the financial instruments discussed above, 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 L - Fair Value Measurements* 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 March 28, 2014, and see the accompanying Condensed Consolidated Statement of Comprehensive Income (Unaudited) for additional information on changes in accumulated other comprehensive loss for the quarter ended March 28, 2014.



**Table of Contents****Note N Changes in Estimates**

Estimates and assumptions, and changes therein, are important in connection with, among others, our segments' revenue recognition policies related to development and production contracts. Revenue and profits related to development and production contracts are recognized using the percentage-of-completion method, generally based on the ratio of costs incurred to estimated total costs at completion (i.e., the cost-to-cost method). Revenue and profits on cost-reimbursable development and production contracts are recognized as allowable costs are incurred on the contract, and become billable to the customer, in an amount equal to the allowable costs plus the profit on those costs.

Development and production contracts are combined when specific aggregation criteria are met. Criteria generally include closely interrelated activities performed for a single customer within the same economic environment. Development and production contracts are generally not segmented. If development and production contracts are segmented, we have determined that they meet specific segmenting criteria. Change orders, claims or other items that may change the scope of a development and production contract are included in contract value only when the value can be reliably estimated and realization is probable. Possible incentives or penalties and award fees applicable to performance on development and production contracts are considered in estimating contract value and profit rates and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase earnings based solely on a single significant event are generally not recognized until the event occurs.

Under the percentage-of-completion method of accounting, a single estimated total profit margin is used to recognize profit for each development and production contract over its period of performance. Recognition of profit on development and production fixed-price contracts requires estimates of the total cost at completion and the measurement of progress toward completion. The estimated profit or loss on a development and production contract is equal to the difference between the estimated contract value and the estimated total cost at completion. Due to the long-term nature of many of our programs, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance, the risk and impact of delayed performance, availability and timing of funding from the customer and the recoverability of any claims outside the original development and production contract included in the estimate to complete. At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard estimate at completion ( EAC ) process in which management reviews the progress and performance on our ongoing development and production contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, at the outset of a cost-reimbursable contract (for example, contracts containing award or incentive fees), we establish an estimate of total contract value, or revenue, based on our expectation of performance on the contract. As the cost-reimbursable contract progresses, our estimates of total contract value may increase or decrease if, for example, we receive higher or lower than expected award fees. When adjustments in estimated total costs at completion or in estimates of total contract value are determined, the related impact to operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Anticipated losses on development and production contracts or programs in progress are charged to operating income when identified. Net EAC adjustments resulting from changes in estimates favorably impacted our operating income in the quarter and three quarters ended March 28, 2014 by \$18.4 million (\$0.12 per diluted share) and \$38.9 million (\$0.24 per diluted share), respectively. Net EAC adjustments resulting from changes in estimates favorably impacted our operating income in the quarter and three quarters ended March 29, 2013 by \$16.2 million (\$0.11 per diluted share) and \$41.9 million (\$0.26 per diluted share), respectively.

**Note O 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 customers and also of secure communications systems and equipment for public safety, utility and transportation organizations. Our Integrated Network Solutions segment provides government, energy, maritime and healthcare customers with integrated communications and information technology and services, including mission-critical end-to-end IT services, managed satellite and terrestrial communications solutions and standards-based healthcare interoperability solutions. Our Government Communications Systems segment conducts advanced research and develops, produces, integrates and supports advanced communications and information systems that solve the mission-critical challenges of our civilian, intelligence and defense government customers worldwide, 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**

See *Note B Discontinued Operations* for information regarding discontinued operations. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in this Report relate solely to our continuing operations.

As discussed in *Note A Significant Accounting Policies and Recent Accounting Standards*, at the beginning of the first quarter of fiscal 2014, to leverage the breadth of our IT enterprise network and information assurance capabilities for the IT Services market, we began managing our cyber security network testing operation as part of our Integrated Network Solutions segment rather than our Government Communications Systems segment. The historical results, discussion and presentation of our business segments as set forth in this Report have been adjusted to reflect the impact of this change to our business segment reporting structure for all periods presented in this Report.

The accounting policies of our business segments are the same as those described in Note 1: Significant Accounting Policies in our Notes to Consolidated Financial Statements in our Fiscal 2013 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 excluding interest income and expense, royalties and related intellectual property expenses, equity method investment income or loss 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 items in the tables below represent 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:

	March 28, 2014	June 28, 2013
	(In millions)	
<b>Total Assets</b>		
RF Communications	\$ 1,367.1	\$ 1,337.2
Integrated Network Solutions	1,765.7	1,747.6
Government Communications Systems	1,033.2	991.4
Corporate	792.6	755.2
Discontinued operations		27.0
	\$ 4,958.6	\$ 4,858.4

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

	Quarter Ended		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions)			
<b>Revenue</b>				
RF Communications	\$ 457.2	\$ 417.7	\$ 1,334.8	\$ 1,348.4
Integrated Network Solutions	348.0	375.0	1,089.5	1,163.6
Government Communications Systems	476.6	430.6	1,321.2	1,313.3
Corporate eliminations	(14.3)	(19.6)	(62.9)	(73.2)
	\$ 1,267.5	\$ 1,203.7	\$ 3,682.6	\$ 3,752.1
<b>Income From Continuing Operations Before Income Taxes</b>				
<i>Segment Operating Income:</i>				
RF Communications	\$ 143.7	\$ 116.1	\$ 421.0	\$ 401.2
Integrated Network Solutions	21.4	30.7	83.8	96.7
Government Communications Systems	77.4	66.5	207.9	197.7
Unallocated corporate expense	(17.0)	(14.0)	(47.4)	(48.4)

Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

Corporate eliminations	(2.2)	(1.6)	(9.3)	(6.1)
Non-operating income (loss) (1)	0.2	(0.5)	4.7	(1.6)
Net interest expense	(22.5)	(26.8)	(68.6)	(81.3)
	\$ 201.0	\$ 170.4	\$ 592.1	\$ 558.2

- (1) Non-operating income (loss) includes equity method investment income (loss); income (expense) related to intellectual property matters; gains and losses on sales of investments and securities available-for-sale; and impairments of investments and securities available-for-sale. Additional information regarding non-operating income (loss) is set forth in *Note J Non-Operating Income (Loss)*.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of Harris Corporation

We have reviewed the condensed consolidated balance sheet of Harris Corporation as of March 28, 2014, and the related condensed consolidated statements of income and comprehensive income for the quarter and three quarters ended March 28, 2014 and March 29, 2013, and the condensed consolidated statements of cash flows for the three quarters ended March 28, 2014 and March 29, 2013. 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 (United States), 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 as of June 28, 2013, and the related consolidated statements of income, comprehensive income, cash flows, and equity for the year then ended (not presented herein) and we expressed an unqualified audit opinion on those consolidated financial statements in our report dated August 26, 2013. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 28, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Orlando, Florida

April 30, 2014

---

## Table of Contents

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

#### OVERVIEW

The following Management's Discussion and Analysis (this MD&A) is intended to assist in an understanding of our financial condition and results of operations. This 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 appearing elsewhere in this Report. In addition, reference should be made to our audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Fiscal 2013 Form 10-K. Except for the historical information contained herein, the discussions in this MD&A contain forward-looking statements that involve risks and uncertainties. Our future results 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 in this MD&A under Forward-Looking Statements and Factors that May Affect Future Results.

The following is a list of the sections of this MD&A, together with our perspective on their contents, which we hope will assist in reading these pages:

**Results of Operations** – an analysis of our consolidated results of operations and of the results in each of our three business segments, to the extent the business segment operating results are helpful to an understanding of our business as a whole, for the periods presented in our Condensed Consolidated Financial Statements (Unaudited). In this section of this MD&A, income from continuing operations refers to income from continuing operations attributable to Harris Corporation common shareholders.

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

**Critical Accounting Policies and Estimates** – information about accounting policies that require critical judgments and estimates and about accounting standards that have been issued but are not yet effective for us and their potential impact on our financial position, results of operations and cash flows.

**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.

Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in this MD&A relate solely to our continuing operations.

#### RESULTS OF OPERATIONS

##### Highlights

Operations results for the third quarter of fiscal 2014 include:

Revenue increased 5.3 percent to \$1,267.5 million in the third quarter of fiscal 2014 from \$1,203.7 million in the third quarter of fiscal 2013;

Income from continuing operations increased 9.8 percent to \$137.3 million in the third quarter of fiscal 2014 compared with \$125.1 million in the third quarter of fiscal 2013;

Income from continuing operations per diluted share increased 13.4 percent to \$1.27 in the third quarter of fiscal 2014 compared with \$1.12 in the third quarter of fiscal 2013;

Our RF Communications segment revenue increased 9.5 percent to \$457.2 million and operating income increased 23.8 percent to \$143.7 million in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013;

Our Integrated Network Solutions segment revenue decreased 7.2 percent to \$348.0 million and operating income decreased 30.3 percent to \$21.4 million in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013;

Our Government Communications Systems segment revenue increased 10.7 percent to \$476.6 million and operating income increased 16.4 percent to \$77.4 million in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013; and

Net cash provided by operating activities decreased 11.5 percent to \$454.0 million in the first three quarters of fiscal 2014 compared with \$513.2 million in the first three quarters of fiscal 2013.

As discussed in *Note A Significant Accounting Policies and Recent Accounting Standards* and *Note O Business Segments* in the Notes, at the beginning of the first quarter of fiscal 2014, to leverage the breadth of our IT enterprise network and information assurance capabilities for the IT Services market, we began managing our cyber security network testing operation as part of our Integrated Network Solutions segment rather than our Government Communications Systems segment. The historical results, discussion and presentation of our business segments as set forth in this Report have been adjusted to reflect the impact of this change to our business segment reporting structure for all periods presented in this Report.

**Table of Contents****Consolidated Results of Operations**

	Quarter Ended			Three Quarters Ended		
	March 28, 2014	March 29, 2013	% Inc/ (Dec)	March 28, 2014	March 29, 2013	% Inc/ (Dec)
(Dollars in millions, except per share amounts)						
<b>Revenue:</b>						
RF Communications	\$ 457.2	\$ 417.7	9.5 %	\$ 1,334.8	\$ 1,348.4	(1.0)%
Integrated Network Solutions	348.0	375.0	(7.2)%	1,089.5	1,163.6	(6.4)%
Government Communications Systems	476.6	430.6	10.7 %	1,321.2	1,313.3	0.6 %
Corporate eliminations	(14.3)	(19.6)	(27.0)%	(62.9)	(73.2)	(14.1)%
<b>Total revenue</b>	<b>1,267.5</b>	<b>1,203.7</b>	<b>5.3 %</b>	<b>3,682.6</b>	<b>3,752.1</b>	<b>(1.9)%</b>
<b>Cost of product sales and services</b>	<b>(841.0)</b>	<b>(803.5)</b>	<b>4.7 %</b>	<b>(2,410.9)</b>	<b>(2,497.2)</b>	<b>(3.5)%</b>
<b>Gross margin</b>	<b>426.5</b>	<b>400.2</b>	<b>6.6 %</b>	<b>1,271.7</b>	<b>1,254.9</b>	<b>1.3 %</b>
<i>% of total revenue</i>	<i>33.6 %</i>	<i>33.2 %</i>		<i>34.5 %</i>	<i>33.4 %</i>	
<b>Engineering, selling and administrative expenses</b>	<b>(203.2)</b>	<b>(202.5)</b>	<b>0.3 %</b>	<b>(615.7)</b>	<b>(613.8)</b>	<b>0.3 %</b>
<i>% of total revenue</i>	<i>16.0 %</i>	<i>16.8 %</i>		<i>16.7 %</i>	<i>16.4 %</i>	
<b>Non-operating income (loss)</b>	<b>0.2</b>	<b>(0.5)</b>	<b>*</b>	<b>4.7</b>	<b>(1.6)</b>	<b>*</b>
<b>Net interest expense</b>	<b>(22.5)</b>	<b>(26.8)</b>	<b>(16.0)%</b>	<b>(68.6)</b>	<b>(81.3)</b>	<b>(15.6)%</b>
<b>Income from continuing operations before income taxes</b>	<b>201.0</b>	<b>170.4</b>	<b>18.0 %</b>	<b>592.1</b>	<b>558.2</b>	<b>6.1 %</b>
<b>Income taxes</b>	<b>(63.9)</b>	<b>(45.8)</b>	<b>39.5 %</b>	<b>(190.5)</b>	<b>(166.8)</b>	<b>14.2 %</b>
<i>Effective tax rate</i>	<i>31.8 %</i>	<i>26.9 %</i>		<i>32.2 %</i>	<i>29.9 %</i>	
<b>Income from continuing operations</b>	<b>137.1</b>	<b>124.6</b>	<b>10.0 %</b>	<b>401.6</b>	<b>391.4</b>	<b>2.6 %</b>
<b>Noncontrolling interests, net of income taxes</b>	<b>0.2</b>	<b>0.5</b>	<b>(60.0)%</b>	<b>0.4</b>	<b>4.4</b>	<b>(90.9)%</b>
<b>Income from continuing operations attributable to Harris Corporation common shareholders</b>	<b>137.3</b>	<b>125.1</b>	<b>9.8 %</b>	<b>402.0</b>	<b>395.8</b>	<b>1.6 %</b>
<i>% of total revenue</i>	<i>10.8 %</i>	<i>10.4 %</i>		<i>10.9 %</i>	<i>10.5 %</i>	
<b>Discontinued operations, net of income taxes</b>	<b>4.1</b>	<b>(30.3)</b>	<b>*</b>	<b>1.4</b>	<b>(338.3)</b>	<b>*</b>
<b>Net income attributable to Harris Corporation common shareholders</b>	<b>\$ 141.4</b>	<b>\$ 94.8</b>	<b>49.2 %</b>	<b>\$ 403.4</b>	<b>\$ 57.5</b>	<b>*</b>
<b>Income from continuing operations per diluted common share attributable to Harris Corporation common shareholders</b>	<b>\$ 1.27</b>	<b>\$ 1.12</b>	<b>13.4 %</b>	<b>\$ 3.72</b>	<b>\$ 3.50</b>	<b>6.3 %</b>

\* Not meaningful

**Revenue**

*Third Quarter 2014 Compared With Third Quarter 2013:* Revenue increases in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 in our RF Communications and Government Communications Systems segments were partially offset by a revenue decrease in



## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

our Integrated Network Solutions segment. The \$40 million increase in revenue in our RF Communications segment was due to higher international revenue in Tactical Communications, partially offset by lower revenue from U.S. Department of Defense ( DoD ) customers in Tactical Communications and lower Public Safety and Professional Communications revenue. The \$46 million increase in revenue in our Government Communications Systems segment was primarily due to higher revenue from the Aireon hosted payload program, the Federal Aviation Administration's NextGen Data Communications Integrated Services ( DataComm ) program, the U.S. Army Modernization of Enterprise Terminals ( MET ) program and the F-35 program. The \$27 million decrease in revenue in our Integrated Network Solutions segment was primarily due to lower revenue from U.S. Government customers across the segment.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* Revenue decreases in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 in our Integrated Network Solutions and RF Communications segments were partially offset by a revenue increase in our Government Communications Systems segment. The \$74 million decrease in revenue in our Integrated Network Solutions segment was primarily due to the same reason as noted above regarding the third quarters of fiscal 2014 and 2013. The \$14 million decrease in revenue in our RF Communications segment was primarily due to lower revenue from

---

## **Table of Contents**

DoD customers in Tactical Communications and lower Public Safety and Professional Communications revenue, mostly offset by higher international revenue in Tactical Communications. The \$8 million increase in revenue in our Government Communications Systems segment was primarily due to higher revenue from the Aireon hosted payload program and the DataComm and MET programs, mostly offset by lower revenue from the Geostationary Operational Environmental Satellite Series R ( GOES-R ) weather program for the National Oceanic and Atmospheric Administration ( NOAA ).

See the Discussion of Business Segment Results of Operations discussion below in this MD&A for further information.

### **Gross Margin Percentage**

*Third Quarter 2014 Compared With Third Quarter 2013:* The increase in gross margin as a percentage of revenue ( gross margin percentage ) in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 was primarily due to an increase in gross margin percentage in, and a higher percentage of our overall revenue generated by, our higher-margin RF Communications segment and operational excellence improvements, partially offset by an out-of-period adjustment made to revenue and cost of sales for satellite and terrestrial communications services. We experienced a gross margin percentage point increase of 2.4 in our RF Communications segment, and gross margin percentage point decreases of 1.9 and 0.7 in our Government Communications Systems and Integrated Network Solutions segments, respectively.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* The increase in gross margin percentage in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 was primarily due to good program execution and operational excellence improvements, including the benefit of restructuring actions in fiscal 2013, resulting in gross margin percentage point increases of 1.9, 0.5 and 0.4 in our RF Communications, Integrated Network Solutions and Government Communications Systems segments, respectively, as well as a lower percentage of our overall revenue generated by our lower-margin Integrated Network Solutions segment.

See the Discussion of Business Segment Results of Operations discussion below in this MD&A for further information.

### **Engineering, Selling and Administrative Expenses**

*Third Quarter 2014 Compared With Third Quarter 2013:* Engineering, selling and administrative ( ESA ) expenses remained essentially unchanged although revenue increased in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013, resulting in slightly lower ESA expenses as a percentage of revenue ( ESA percentage ) in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013. ESA expenses in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 reflected higher research and development expenses, mostly offset by a reduction in general and administrative expenses due to an out-of-period adjustment related to our post-employment benefit plan and due to operational excellence improvements.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* ESA expenses remained essentially unchanged although revenue decreased in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013, resulting in a slightly higher ESA percentage in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013. ESA expenses in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 reflected higher research and development expenses and an increase in general and administrative expenses in our RF Communications segment due to accruals in the first quarter of fiscal 2014 for legal matters, mostly offset by a reduction in general and administrative expenses due to the out-of-period adjustment related to our post-employment benefit plan in the third quarter of fiscal 2014 as noted above regarding the third quarters of fiscal 2014 and 2013, and due to operational excellence improvements.

See the Discussion of Business Segment Results of Operations discussion below in this MD&A for further information.

### **Non-Operating Income (Loss)**

*First Three Quarters 2014 Compared With First Three Quarters 2013:* Non-operating income in the first three quarters of fiscal 2014 was due to net income related to intellectual property matters. The non-operating loss in the first three quarters of fiscal 2013 was primarily due to a \$6.4 million impairment of an investment in a joint venture and a \$5.8 million impairment of a cost-method investment, mostly offset by a \$9.0 million gain on the sale of securities available-for-sale and \$1.5 million of net income related to intellectual property matters.

See Note J Non-Operating Income (Loss) in the Notes for further information.

### **Net Interest Expense**

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

*Third Quarter 2014 Compared With Third Quarter 2013:* The decrease in net interest expense in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 was primarily due to lower debt levels as a result of our optional redemption on May 28, 2013 of the entire outstanding \$300 million principal amount of our 5% Notes due October 1, 2015.

**Table of Contents**

*First Three Quarters 2014 Compared With First Three Quarters 2013:* The decrease in net interest expense in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 was primarily due to the same reason as noted above regarding the third quarters of fiscal 2014 and 2013.

**Income Taxes**

*Third Quarter 2014 Compared With Third Quarter 2013:* In the third quarter of fiscal 2014, our effective tax rate benefited from additional deductions (primarily related to manufacturing) and additional research credits claimed on our fiscal 2013 tax return compared with our recorded estimates at the end of fiscal 2013. In the third quarter of fiscal 2013, legislation was enacted that restored the U.S. Federal income tax credit for qualifying research and development expenses. This resulted in a benefit of approximately \$7 million (approximately 4 percent of income from continuing operations before income taxes) in calculating our effective tax rate in the third quarter of fiscal 2013. Additionally, in the third quarter of fiscal 2013, our effective tax rate benefited from additional deductions (primarily related to manufacturing) claimed on our fiscal 2012 tax return compared with our recorded estimates at the end of fiscal 2012 and favorable tax settlements of approximately \$2 million.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* In the first three quarters of fiscal 2014, our effective tax rate benefited from the discrete items noted above regarding the third quarter of fiscal 2014, as well as from the settlement of a state tax audit and a refund resulting from a consolidation of foreign subsidiaries. In the first three quarters of fiscal 2013, our effective tax rate benefited from the discrete items noted above regarding the third quarter of fiscal 2013, as well as from tax elections resulting in the deductibility of certain expenses, a reduction in estimated non-U.S. tax liabilities, a reduction in state taxes due to changes in certain state tax laws and confirmation of the availability of certain acquired tax attributes due to audit resolution.

**Discontinued Operations, Net of Income Taxes**

*Third Quarter 2014 Compared With Third Quarter 2013:* In the third quarter of fiscal 2014, discontinued operations reflected a \$4.8 million tax benefit (primarily related to the realization of additional tax deductions in respect of Broadcast Communications on various fiscal 2013 tax returns compared with our recorded estimates at the end of fiscal 2013), partially offset by a \$1.0 million (\$0.7 million after-tax) increase in the loss on sale of Broadcast Communications from miscellaneous adjustments for contingencies related to the disposition. In the third quarter of fiscal 2013, discontinued operations reflected the results of operations for Broadcast Communications and CIS, including a loss of \$23.4 million (\$23.6 million after-tax) on the sale of Broadcast Communications during the third quarter of fiscal 2013.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* In the first three quarters of fiscal 2014, discontinued operations reflected a \$4.8 million tax benefit (primarily related to the realization of additional tax deductions in respect of Broadcast Communications on various fiscal 2013 tax returns compared with our recorded estimates at the end of fiscal 2013) and a \$3.1 million (\$1.9 million after-tax) gain on the sale of the remaining assets of CIS, partially offset by a \$7.6 million (\$5.3 million after-tax) increase in the loss on sale of Broadcast Communications from miscellaneous adjustments for contingencies related to the disposition. In the first three quarters of fiscal 2013, the results of operations for Broadcast Communications and CIS included non-cash impairment charges of \$314.4 million (\$297.3 million after-tax) and \$6.3 million (\$3.9 million after-tax), respectively.

See *Note B – Discontinued Operations* in the Notes for further information.

**Income From Continuing Operations Per Diluted Common Share Attributable to Harris Corporation Common Shareholders**

*Third Quarter 2014 Compared With Third Quarter 2013:* The increase in income from continuing operations per diluted common share in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 was primarily due to the same reasons noted above in this MD&A regarding the third quarters of fiscal 2014 and 2013, as well as the reduction in average common shares outstanding as a result of shares repurchased.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* The increase in income from continuing operations per diluted common share in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 was primarily due to the same reasons as noted above regarding the third quarters of fiscal 2014 and 2013.

See the **Common Stock Repurchases** discussion below in this MD&A for further information.

**Table of Contents****Discussion of Business Segment Results of Operations****RF Communications Segment**

	Quarter Ended			Three Quarters Ended		
	March 28, 2014	March 29, 2013	% Inc/ (Dec) (Dollars in millions)	March 28, 2014	March 29, 2013	% Inc/ (Dec)
Revenue	\$ 457.2	\$ 417.7	9.5 %	\$ 1,334.8	\$ 1,348.4	(1.0)%
Cost of product sales and services	(218.8)	(209.9)	4.2 %	(635.1)	(667.4)	(4.8)%
Gross margin	238.4	207.8	14.7 %	699.7	681.0	2.7 %
<i>% of revenue</i>	<i>52.1 %</i>	<i>49.7 %</i>		<i>52.4 %</i>	<i>50.5 %</i>	
ESA expenses	(94.7)	(91.7)	3.3 %	(278.7)	(279.8)	(0.4)%
<i>% of revenue</i>	<i>20.7 %</i>	<i>22.0 %</i>		<i>20.9 %</i>	<i>20.8 %</i>	
Segment operating income	\$ 143.7	\$ 116.1	23.8 %	\$ 421.0	\$ 401.2	4.9 %
<i>% of revenue</i>	<i>31.4 %</i>	<i>27.8 %</i>		<i>31.5 %</i>	<i>29.8 %</i>	

*Third Quarter 2014 Compared With Third Quarter 2013:* Segment revenue in the third quarter of fiscal 2014 included \$335 million in Tactical Communications, an increase of 21 percent from \$276 million in the third quarter of fiscal 2013; and \$122 million in Public Safety and Professional Communications, a decrease of 14 percent from \$142 million in the third quarter of fiscal 2013. The increase in Tactical Communications revenue was due to higher revenue in international markets, partially offset by lower revenue from DoD customers. The decrease in Public Safety and Professional Communications revenue was primarily due to continued weakness across system and terminal sales in state and local government markets.

Segment gross margin percentage in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 increased, primarily driven by a higher gross margin percentage in Tactical Communications, reflecting a favorable mix of revenue, operational excellence improvements and the benefit of restructuring actions in fiscal 2013. Segment ESA expenses were higher and segment ESA percentage was lower in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013, primarily reflecting higher general and administrative expenses in Tactical Communications associated with higher revenue in international markets, partially offset by a reduction in segment general and administrative expenses due to an out-of-period adjustment related to our post-employment benefit plan. Segment operating income increased and operating income as a percentage of revenue ( operating margin percentage ) increased in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013, reflecting the items discussed above regarding this segment.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* Segment revenue in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 decreased due to a decrease in revenue in Public Safety and Professional Communications, partially offset by an increase in revenue in Tactical Communications. The decrease in revenue in Public Safety and Professional Communications and increase in revenue in Tactical Communications were due to the same reasons as noted above regarding this segment for the third quarters of fiscal 2014 and 2013.

Segment gross margin percentage in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 increased due to the same reasons as noted above regarding this segment for the third quarters of fiscal 2014 and 2013. Segment ESA expenses and ESA percentage were essentially unchanged in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013, primarily reflecting higher general and administrative expenses in Tactical Communications associated with higher revenue in international markets and the impact of accruals in the first quarter of fiscal 2014 for legal matters related to a Public Safety and Professional Communications program, partially offset by a reduction in segment general and administrative expenses due to the out-of-period adjustment related to our post-employment benefit plan in the third quarter of fiscal 2014, as noted above regarding this segment for the third quarters of fiscal 2014 and 2013. Segment operating income and operating margin percentage both increased in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013, reflecting the items discussed above regarding this segment for the first three quarters of fiscal 2014 and 2013.



**Table of Contents****Integrated Network Solutions Segment**

	Quarter Ended			Three Quarters Ended		
	March 28, 2014	March 29, 2013	% Inc/ (Dec) (Dollars in millions)	March 28, 2014	March 29, 2013	% Inc/ (Dec)
Revenue	\$ 348.0	\$ 375.0	(7.2)%	\$ 1,089.5	\$ 1,163.6	(6.4)%
Cost of product sales and services	(282.6)	(301.9)	(6.4)%	(871.4)	(936.7)	(7.0)%
Gross margin	65.4	73.1	(10.5)%	218.1	226.9	(3.9)%
% of revenue	18.8 %	19.5 %		20.0 %	19.5 %	
ESA expenses	(44.0)	(42.4)	3.8 %	(134.3)	(130.2)	3.1 %
% of revenue	12.6 %	11.3 %		12.3 %	11.2 %	
Segment operating income	\$ 21.4	\$ 30.7	(30.3)%	\$ 83.8	\$ 96.7	(13.3)%
% of revenue	6.1 %	8.2 %		7.7 %	8.3 %	

*Third Quarter 2014 Compared With Third Quarter 2013:* Segment revenue in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 decreased, primarily due to lower revenue from U.S. Government customers across the segment.

Segment gross margin percentage in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 decreased, reflecting an out-of-period adjustment made to revenue and cost of sales for satellite and terrestrial communications services and margin pressure from a competitive market environment, partially offset by increases in gross margin percentage on satellite and terrestrial communications services due to operational excellence improvements. Segment ESA expenses and ESA percentage were higher in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013. These ESA results primarily reflected higher general and administrative expenses for satellite and terrestrial communications services, primarily due to a reduction in general and administrative expenses in the third quarter of fiscal 2013 related to a favorable adjustment of an indemnity claim. These higher ESA expenses were partially offset by a reduction in segment general and administrative expenses due to an out-of-period adjustment related to our post-employment benefit plan, as well as operational excellence improvements and the benefit of restructuring actions in fiscal 2013. Segment operating income and operating margin percentage both decreased in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013, reflecting the items discussed above regarding this segment.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* Segment revenue in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 decreased, primarily due to the same reasons as noted above regarding this segment for the third quarters of fiscal 2014 and 2013.

Segment gross margin percentage in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 increased, primarily due to increases in gross margin percentage on satellite and terrestrial communications services, partially offset by the out-of-period adjustment made to revenue and cost of sales for satellite and terrestrial communications services in the third quarter of fiscal 2014, as noted above regarding this segment for the third quarters of fiscal 2014 and 2013, and margin pressure from a competitive market environment. Segment ESA expenses and ESA percentage were higher in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013. These ESA results primarily reflected higher general and administrative expenses for satellite and terrestrial communications services, primarily due to a reduction in general and administrative expenses in the third quarter of fiscal 2013 related to a favorable adjustment of an indemnity claim and to lower general and administrative expenses in the first quarter of fiscal 2013 due to a decrease in reserves for U.S. telecommunications fees and international business receipts taxes. These higher ESA expenses were partially offset by a reduction in segment general and administrative expenses due to the out-of-period adjustment related to our post-employment benefit plan in the third quarter of fiscal 2014, as noted above regarding this segment for the third quarters of fiscal 2014 and 2013, as well as operational excellence improvements and the benefit of restructuring actions in fiscal 2013. Segment operating income and operating margin percentage both decreased in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013, reflecting the items discussed above regarding this segment for the first three quarters of fiscal 2014 and 2013.

**Table of Contents****Government Communications Systems Segment**

	Quarter Ended			Three Quarters Ended		
	March 28, 2014	March 29, 2013	% Inc/ (Dec)	March 28, 2014	March 29, 2013	% Inc/ (Dec)
	(Dollars in millions)					
Revenue	\$ 476.6	\$ 430.6	10.7 %	\$ 1,321.2	\$ 1,313.3	0.6 %
Cost of product sales and services	(353.9)	(311.7)	13.5 %	(967.3)	(966.7)	0.1 %
Gross margin	122.7	118.9	3.2 %	353.9	346.6	2.1 %
% of revenue	25.7 %	27.6 %		26.8 %	26.4 %	
ESA expenses	(45.3)	(52.4)	(13.5)%	(146.0)	(148.9)	(1.9)%
% of revenue	9.5 %	12.2 %		11.1 %	11.3 %	
Segment operating income	\$ 77.4	\$ 66.5	16.4 %	\$ 207.9	\$ 197.7	5.2 %
% of revenue	16.2 %	15.4 %		15.7 %	15.1 %	

*Third Quarter 2014 Compared With Third Quarter 2013:* Segment revenue in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 increased, primarily due to higher revenue from the Aireon hosted payload program and the DataComm, MET and F-35 programs.

Segment gross margin percentage in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 decreased, primarily due to a less favorable mix of revenue in the third quarter of fiscal 2014. Segment ESA expenses and ESA percentage were lower in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013, primarily reflecting a reduction in segment general and administrative expenses due to an out-of-period adjustment related to our post-employment benefit plan, as well as operational excellence improvements and the benefit of restructuring actions in fiscal 2013, partially offset by higher spending on research and development. Segment operating income and operating margin percentage both increased in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013, reflecting the items discussed above regarding this segment.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* Segment revenue in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 increased, primarily due to higher revenue from the Aireon hosted payload program and the DataComm and MET programs, mostly offset by lower revenue from the GOES-R weather program for NOAA.

The increases in segment gross margin and in segment gross margin percentage in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 were due to continued strong program performance, including the retirement of risk on certain space programs. Segment ESA expenses and ESA percentage were essentially unchanged in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013, primarily due to the same reasons as noted above regarding this segment for the third quarters of fiscal 2014 and 2013. Segment operating income and operating margin percentage both increased in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013, reflecting the items discussed above regarding this segment for the first three quarters of fiscal 2014 and 2013.

**Unallocated Corporate Expense and Corporate Eliminations**

	Quarter Ended			Three Quarters Ended		
	March 28, 2014	March 29, 2013	% Inc/ (Dec)	March 28, 2014	March 29, 2013	% Inc/ (Dec)
	(Dollars in millions)					
Unallocated corporate expense	\$ 17.0	\$ 14.0	21.4 %	\$ 47.4	\$ 48.4	(2.1)%
Corporate eliminations	2.2	1.6	37.5 %	9.3	6.1	52.5 %

*Third Quarter 2014 Compared With Third Quarter 2013:* The increase in unallocated corporate expense in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 was primarily due to one-time employment-related costs. The increase in corporate eliminations in the third quarter of fiscal 2014 compared with the third quarter of fiscal 2013 was primarily due to higher intersegment eliminations for sales



## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

of services between our Integrated Network Solutions segment and our Government Communications Systems segment.

*First Three Quarters 2014 Compared With First Three Quarters 2013:* The increase in corporate eliminations in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 was due to the same reason noted above regarding the third quarters of fiscal 2014 and 2013.

**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES****Cash Flows**

	<b>Three Quarters Ended</b>	
	<b>March 28,</b>	<b>March 29,</b>
	<b>2014</b>	<b>2013</b>
	<b>(In millions)</b>	
Net cash provided by operating activities	\$ 454.0	\$ 513.2
Net cash provided by (used in) investing activities	(116.0)	27.0
Net cash used in financing activities	(300.5)	(438.3)
Effect of exchange rate changes on cash and cash equivalents	(8.9)	1.1
<b>Net increase in cash and cash equivalents</b>	<b>28.6</b>	<b>103.0</b>
Cash and cash equivalents, beginning of year	321.0	356.0
<b>Cash and cash equivalents, end of quarter</b>	<b>\$ 349.6</b>	<b>\$ 459.0</b>

**Cash and cash equivalents:** Our Condensed Consolidated Statement of Cash Flows (Unaudited) includes cash flows from Broadcast Communications and CIS. Our Condensed Consolidated Balance Sheet (Unaudited) as of the end of fiscal 2013 reflects CIS as discontinued operations. Our consolidated cash flows in the first three quarters of fiscal 2014 include \$27.0 million provided by investing activities from the net proceeds from our sale of the remaining assets of CIS in the first quarter of fiscal 2014. Our consolidated cash flows in the first three quarters of fiscal 2013 include \$147.4 million of net proceeds from the sale of Broadcast Communications in the third quarter of fiscal 2013. Other impacts to our consolidated cash flows in the first three quarters of fiscal 2014 and 2013 from Broadcast Communications and CIS were not material.

Our cash and cash equivalents increased \$28.6 million to \$349.6 million at the end of the third quarter of fiscal 2014 from \$321.0 million at the end of fiscal 2013. The increase was primarily due to \$454.0 million of net cash provided by operating activities, \$133.9 million of proceeds from exercises of employee stock options and \$27.0 million of net proceeds from our sale of the remaining assets of CIS, mostly offset by \$222.1 million used to repurchase shares of our common stock, \$139.7 million used for additions of property, plant and equipment, \$135.5 million used to pay cash dividends and \$76.8 million used for net repayments of borrowings. Our cash and cash equivalents increased \$103.0 million to \$459.0 million at the end of the third quarter of fiscal 2013 from \$356.0 million at the end of fiscal 2012. The increase was primarily due to \$513.2 million of net cash provided by operating activities, \$147.4 million of net proceeds from the sale of Broadcast Communications in the third quarter of fiscal 2013 as noted above and \$84.7 million of net proceeds from exercises of employee stock options, partially offset by \$274.6 million used to repurchase shares of our common stock, \$131.5 million used for additions of property, plant, and equipment and capitalized software, \$124.6 million used to pay cash dividends and \$123.8 million used for net repayments of borrowings.

Our financial position remained strong at March 28, 2014. We ended the third quarter of fiscal 2014 with cash and cash equivalents of \$349.6 million; we have no long-term debt maturing until December 1, 2017; we have a senior unsecured \$1 billion revolving credit facility that expires in September 2017 (all of which was available to us as of March 28, 2014); and we do not have any material defined benefit pension plan obligations. Our \$349.6 million of cash and cash equivalents at March 28, 2014 included \$175 million held by our foreign subsidiaries, \$127 million of which was available for use in the U.S. without incurring additional U.S. income taxes. We would be required to recognize U.S. income taxes of \$13 million on the remaining \$48 million if we were to repatriate such funds to the U.S., but we have no current plans to repatriate such funds.

Given our current cash position, outlook for funds generated from operations, credit ratings, available credit facility, cash needs and debt structure, we have not experienced to date, and do not expect to experience, any material issues with liquidity, although we can give no assurances concerning our future liquidity, particularly in light of the U.S. Government budget uncertainties and the state of global commerce and financial uncertainty.

We also currently believe that existing cash, funds generated from operations, our credit facility and access to the public and private debt and equity markets will be sufficient to provide for our anticipated working capital requirements, capital expenditures, dividend payments and repurchases under our share repurchase program for the next 12 months and for the reasonably foreseeable future thereafter. We anticipate tax payments over the next three years to be approximately equal to our tax expense for the same period. Other than those cash outlays noted in the

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

Commercial Commitments and Contractual Obligations discussion below in this MD&A, capital expenditures, dividend payments, repurchases under our share repurchase program and potential acquisitions, no other significant cash outlays are anticipated during the remainder of fiscal 2014.

There can be no assurance, however, that our business will continue to generate cash flows at current levels or that the cost or availability of future borrowings, if any, under our commercial paper program or our credit facility or in the debt markets will not be

**Table of Contents**

impacted by any potential future credit and capital markets disruptions. If we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations, we may be required to sell assets, reduce capital expenditures, reduce or eliminate strategic acquisitions, reduce or terminate our share repurchases, reduce or eliminate dividends, refinance all or a portion of our existing debt or obtain additional financing. Our ability to make principal payments or pay interest on or refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the defense, government and integrated communications and information technology and services markets and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

**Net cash provided by operating activities:** Our net cash provided by operating activities was \$454.0 million in the first three quarters of fiscal 2014, compared with \$513.2 million in the first three quarters of fiscal 2013. Cash flow from operations was positive in all of our business segments in the first three quarters of fiscal 2014. The decrease in net cash provided by operating activities in the first three quarters of fiscal 2014 compared with the first three quarters of fiscal 2013 was primarily due to the timing of product shipments and to slower collections.

**Net cash provided by (used in) investing activities:** Our net cash used in investing activities was \$116.0 million in the first three quarters of fiscal 2014 compared with net cash provided by investing activities of \$27.0 million in the first three quarters of fiscal 2013. The difference in cash flows from investing activities was primarily attributable to \$147.4 million of net proceeds from the sale of Broadcast Communications in the third quarter of fiscal 2013, partially offset by \$27.0 million of net proceeds from the sale of the remaining assets of CIS in the first quarter of fiscal 2014. Our total capital expenditures in fiscal 2014 are expected to be approximately \$230 million.

**Net cash used in financing activities:** Our net cash used in financing activities decreased to \$300.5 million in the first three quarters of fiscal 2014 from \$438.3 million in the first three quarters of fiscal 2013. The decrease was primarily due to \$52.5 million less in repurchases of our common stock, \$49.2 million more of proceeds from exercises of employee stock options and \$47.0 million less in net repayments of borrowings.

**Common Stock Repurchases**

During the third quarter of fiscal 2014, we used \$64.4 million to repurchase 897,199 shares of our common stock under our 2013 Repurchase Program (as defined below) at an average price per share of \$71.81, including commissions. During the third quarter of fiscal 2013, we used \$160.0 million to repurchase 3,377,202 shares of our common stock under our 2011 Repurchase Program (as defined below) at an average price per share of \$47.38, including commissions. During the first three quarters of fiscal 2014, we used \$214.4 million to repurchase 3,429,879 shares of our common stock under our 2013 Repurchase Program and 2011 Repurchase Program at an average price per share of \$62.52, including commissions. During the first three quarters of fiscal 2013, we used \$260.0 million to repurchase 5,477,621 shares of our common stock under our 2011 Repurchase Program at an average price per share of \$47.47, including commissions. In the third quarter of fiscal 2014 and third quarter of fiscal 2013, \$0.9 million and \$0.4 million, respectively, in shares of our common stock were delivered to us or withheld by us to satisfy withholding taxes on employee share-based awards. In the first three quarters of fiscal 2014 and first three quarters of fiscal 2013, \$7.7 million and \$14.6 million, respectively, in shares of our common stock were delivered to us or withheld by us to satisfy withholding taxes on employee share-based awards. Shares repurchased by us are cancelled and retired.

On August 23, 2013, our Board of Directors approved a new \$1 billion share repurchase program (our 2013 Repurchase Program), which was in addition to our prior share repurchase program approved in 2011 (our 2011 Repurchase Program). Our repurchases during the second quarter of fiscal 2014 used the remaining authorization under our 2011 Repurchase Program. As of March 28, 2014, we had a remaining, unused authorization of approximately \$919 million under our 2013 Repurchase Program, which does not have a stated expiration date. Our repurchase programs have resulted, and our 2013 Repurchase Program is expected to continue to result, in repurchases in excess of the dilutive effect of shares issued under our share-based incentive plans. However, the level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. Repurchases are expected to be funded with available cash and commercial paper and may be made through open market purchases, private transactions, transactions structured through investment banking institutions or any combination thereof. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time.

Additional information regarding share repurchases during the third quarter of fiscal 2014 and our repurchase programs is set forth in this Report under Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

**Dividends**

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

On August 23, 2013, our Board of Directors increased the quarterly cash dividend rate on our common stock from \$.37 per share to \$.42 per share, for an annualized cash dividend rate of \$1.68 per share, which was our twelfth consecutive annual increase in our quarterly cash dividend rate. Our annualized cash dividend rate was \$1.48 per share in fiscal 2013. There can be no assurances that our

---

## **Table of Contents**

annualized cash dividend rate will continue to increase. Quarterly cash dividends are typically paid in March, June, September and December. We currently expect that cash dividends will continue to be paid in the near future, but we can give no assurances concerning payment of future dividends. The declaration of dividends and the amount thereof will depend on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors that our Board of Directors may deem relevant.

### **Capital Structure and Resources**

**2012 Credit Agreement:** On September 28, 2012, we established a new \$1 billion 5-year senior unsecured revolving credit facility (the 2012 Credit Facility ) by entering into a Revolving Credit Agreement (the 2012 Credit Agreement ) with a syndicate of lenders. The 2012 Credit Facility replaced our prior revolving credit facilities. For a description of the 2012 Credit Facility and the 2012 Credit Agreement, see Note 11: Credit Arrangements in our Notes to Consolidated Financial Statements in our Fiscal 2013 Form 10-K.

We were in compliance with the covenants in the 2012 Credit Agreement at March 28, 2014, including the covenant requiring that we not permit our ratio of consolidated total indebtedness to total capital, each as defined in the 2012 Credit Agreement, to be greater than 0.60 to 1.00 at any time. At March 28, 2014, we had no borrowings outstanding under the 2012 Credit Agreement, but we had \$75.0 million of short-term debt outstanding under our commercial paper program that was supported by the 2012 Credit Facility.

**Short-Term Debt:** Our short-term debt at March 28, 2014 and June 28, 2013 was \$81.3 million and \$144.6 million, respectively. Our short-term debt at March 28, 2014 and June 28, 2013 primarily consisted of commercial paper issued to partially fund our optional redemption on May 28, 2013 of the entire outstanding \$300 million principal amount of our 5% Notes due October 1, 2015. Our commercial paper program was supported at March 28, 2014 and June 28, 2013 by the 2012 Credit Facility.

**Other:** We have an automatically effective, universal shelf registration statement, filed with the SEC on February 27, 2013, related to the potential future issuance of an indeterminate amount of securities, including debt securities, preferred stock, common stock, fractional interests in preferred stock represented by depository shares and warrants to purchase debt securities, preferred stock or common stock.

We expect to maintain operating ratios, fixed-charge coverage ratios and balance sheet ratios sufficient for retention of, or improvement to, our current debt ratings. There are no assurances that our debt ratings will not be reduced in the future. If our debt ratings are lowered below investment grade, we may not be able to issue short-term commercial paper, but may instead need to borrow under our credit facility or pursue other options. In addition, if our debt ratings are lowered to below investment grade, we may also be required to provide collateral to support a portion of our outstanding performance bonds. For a discussion of such performance bonds, see the Commercial Commitments discussion in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Fiscal 2013 Form 10-K. We do not currently expect a downgrade of our current debt ratings, but no assurances can be given. If our debt ratings are downgraded, it could adversely impact, among other things, our future borrowing costs and access to capital markets and our ability to receive certain types of contract awards.

### **Off-Balance Sheet Arrangements**

In accordance with the definition under SEC rules, any of the following qualify as off-balance sheet arrangements:

Any obligation under certain guarantee contracts;

A retained or contingent interest in assets transferred to an unconsolidated entity or similar entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;

Any obligation, including a contingent obligation, under certain derivative instruments; and

Any obligation, including a contingent obligation, under a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

Currently we are not participating in any material transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we do not have any material retained or contingent interest in assets as defined above. As of March 28, 2014, we did not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect our results of operations, financial condition or cash flows. In addition, we are not currently a party to any related party transactions that materially affect our results of operations, financial condition or cash flows.

We have, from time to time, divested certain of our businesses and assets. In connection with these divestitures, we often provide representations, warranties and/or indemnities to cover various risks and unknown liabilities, such as environmental liabilities and tax liabilities. We cannot estimate the potential liability from such representations, warranties and indemnities because they relate to unknown conditions. We do not believe, however, that the liabilities relating to these representations, warranties and indemnities will have a material adverse effect on our results of operations, financial condition or cash flows.

**Table of Contents**

Due to our downsizing of certain operations pursuant to acquisitions, restructuring plans or otherwise, certain properties leased by us have been sublet to third parties. In the event any of these third parties vacates any of these premises, we would be legally obligated under master lease arrangements. We believe that the financial risk of default by such sublessees is individually and in the aggregate not material to our results of operations, financial condition or cash flows.

**Commercial Commitments and Contractual Obligations**

The amounts disclosed in our Fiscal 2013 Form 10-K include our contractual obligations and commercial commitments. During the three quarters ended March 28, 2014, no material changes occurred in our contractual cash obligations to repay debt, to purchase goods and services and to make payments under operating leases or our commercial commitments and contingent liabilities on outstanding surety bonds, standby letters of credit and other arrangements as disclosed in our Fiscal 2013 Form 10-K.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 1: Significant Accounting Policies in our Notes to Consolidated Financial Statements included in our Fiscal 2013 Form 10-K. Critical accounting policies and estimates are those that require application of management's most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies and estimates for us include: (i) revenue recognition on contracts and contract estimates (discussed in greater detail in the following paragraphs), (ii) provisions for excess and obsolete inventory losses, (iii) impairment testing of goodwill, and (iv) income taxes and tax valuation allowances. For additional discussion of our critical accounting policies and estimates, see the Critical Accounting Policies and Estimates discussion in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Fiscal 2013 Form 10-K.

**Revenue Recognition**

A significant portion of our business is derived from development and production contracts. Revenue and profits related to development and production contracts are recognized using the percentage-of-completion method, generally based on the ratio of costs incurred to estimated total costs at completion (i.e., the cost-to-cost method) with consideration given for risk of performance and estimated profit. Revenue in our Government Communications Systems segment primarily relates to development and production contracts, and the percentage-of-completion method of revenue recognition is primarily used for these contracts. Change orders, claims or other items that may change the scope of a development and production contract are included in contract value only when the value can be reliably estimated and realization is probable. Possible incentives or penalties and award fees applicable to performance on development and production contracts are considered in estimating contract value and profit rates and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase earnings based solely on a single significant event are generally not recognized until the event occurs.

Under the percentage-of-completion method of accounting, a single estimated total profit margin is used to recognize profit for each development and production contract over its period of performance. Recognition of profit on development and production fixed-price contracts requires estimates of the total cost at completion and the measurement of progress toward completion. The estimated profit or loss on a development and production contract is equal to the difference between the estimated contract value and the estimated total cost at completion. Due to the long-term nature of many of our programs, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance, the risk and impact of delayed performance, availability and timing of funding from the customer and the recoverability of any claims outside the original development and production contract included in the estimate to complete. At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard estimate at completion process in which management reviews the progress and performance on our ongoing development and production contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, at the outset of a cost-reimbursable contract (for example, contracts containing award or incentive fees), we establish an estimate of total contract value, or revenue, based on our expectation of performance on the contract. As the cost-reimbursable contract progresses, our estimates of total contract value may increase or decrease if, for example, we receive higher or lower than expected award fees. When adjustments in estimated total costs at completion or in estimates of total contract value are determined, the related impact to operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Anticipated losses on development and production contracts or programs in progress are charged



to operating income when identified. We have not made any material changes in the methodologies used to recognize revenue on development and production contracts or to estimate our costs related to development and production contracts in the past three fiscal years.

**Table of Contents**

Estimate at completion adjustments had the following impacts to operating income for the periods presented:

	Quarter Ended		Three Quarters Ended	
	March 28, 2014	March 29, 2013	March 28, 2014	March 29, 2013
	(In millions)			
Favorable adjustments	\$ 28.6	\$ 25.6	\$ 68.1	\$ 74.3
Unfavorable adjustments	(10.2)	(9.4)	(29.2)	(32.4)
Net operating income adjustments	\$ 18.4	\$ 16.2	\$ 38.9	\$ 41.9

There were no individual impacts to operating income due to estimate at completion adjustments in the quarter and three quarters ended March 28, 2014 or in the quarter and three quarters ended March 29, 2013 that were material to our results of operations on a consolidated or segment basis for such periods.

See Note N *Changes in Estimates* in the Notes for further information.

**Impact of Recently Issued Accounting Standards**

Accounting standards issued but not effective for us until after March 28, 2014 are not expected to have a material impact on our financial position, results of operations or cash flows.

**FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed in or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, statements concerning: our plans, strategies and objectives for future operations; new products, systems, technologies, services or developments; future economic conditions, performance or outlook; the outcome of contingencies; the potential level of share repurchases or dividends; the value of our contract awards and programs; expected cash flows or capital expenditures; our beliefs or expectations; activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future; and assumptions underlying any of the foregoing. Forward-looking statements may be identified by their use of forward-looking terminology, such as believes, expects, may, should, would, intends, plans, estimates, anticipates, projects and similar words or expressions. You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Report and are not guarantees of future performance or actual results. Forward-looking statements are made in reliance on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The following are some of the factors we believe could cause our actual results to differ materially from our historical results or our current expectations or projections:

We depend on U.S. Government customers for a significant portion of our revenue, and the loss of this relationship or a change or reduction in U.S. Government funding priorities could have an adverse impact on our business, financial condition, results of operations and cash flows.

We depend significantly on U.S. Government contracts, which often are only partially funded, subject to immediate termination, and heavily regulated and audited. The termination or failure to fund, or negative audit findings for, one or more of these contracts could have an adverse impact on our business, financial condition, results of operations and cash flows.

We could be negatively impacted by a security breach, through cyber attack, cyber intrusion or otherwise, or other significant disruption of our IT networks and related systems or of those we operate for certain of our customers.

We enter into fixed-price contracts that could subject us to losses in the event of cost overruns or a significant increase in inflation.

We derive a significant portion of our revenue from international operations and are subject to the risks of doing business internationally, including fluctuations in currency exchange rates.

Our reputation and ability to do business may be impacted by the improper conduct of our employees, agents or business partners.

We may not be successful in obtaining the necessary export licenses to conduct certain operations abroad, and Congress may prevent proposed sales to certain foreign governments.

The continued effects of the general weakness in the global economy and the U.S. Government's budget deficits and national debt could have an adverse impact on our business, financial condition, results of operations and cash flows.

Our future success will depend on our ability to develop new products, systems, services and technologies that achieve market acceptance in our current and future markets.

**Table of Contents**

We participate in markets that are often subject to uncertain economic conditions, which makes it difficult to estimate growth in our markets and, as a result, future income and expenditures.

We cannot predict the consequences of future geo-political events, but they may adversely affect the markets in which we operate, our ability to insure against risks, our operations or our profitability.

We have made, and may continue to make, strategic acquisitions and divestitures that involve significant risks and uncertainties.

Disputes with our subcontractors and the inability of our subcontractors to perform, or our key suppliers to timely deliver our components, parts or services, could cause our products or services to be produced or delivered in an untimely or unsatisfactory manner.

Third parties have claimed in the past and may claim in the future that we are infringing directly or indirectly upon their intellectual property rights, and third parties may infringe upon our intellectual property rights.

The outcome of litigation or arbitration in which we are involved is unpredictable and an adverse decision in any such matter could have a material adverse effect on our financial condition, results of operations and cash flows.

We face certain significant risk exposures and potential liabilities that may not be covered adequately by insurance or indemnity.

Changes in our effective tax rate may have an adverse effect on our results of operations.

We have significant operations in locations that could be materially and adversely impacted in the event of a natural disaster or other significant disruption.

Changes in the regulatory framework under which our managed satellite and terrestrial communications solutions operations are operated could adversely affect our business, financial condition, results of operations and cash flows.

We rely on third parties to provide satellite bandwidth for our managed satellite and terrestrial communications solutions, and any bandwidth constraints could harm our business, financial condition, results of operations and cash flows.

Changes in future business or other market conditions could cause business investments and/or recorded goodwill or other long-term assets to become impaired, resulting in substantial losses and write-downs that would reduce our results of operations.

We must attract and retain key employees, and failure to do so could seriously harm us.

Additional details and discussions concerning some of the factors that could affect our forward-looking statements or future results are set forth in our Fiscal 2013 Form 10-K under Item 1A. Risk Factors. The foregoing list of factors and the factors set forth in Item 1A. Risk Factors included in our Fiscal 2013 Form 10-K and in Part II. Item 1A. Risk Factors in this Report are not exhaustive. Additional risks and uncertainties not known to us or that we currently believe not to be material also may adversely impact our business, financial condition, results of operations and cash flows. Should any risks or uncertainties develop into actual events, these developments could have a material adverse effect on our business, financial condition, results of operations and cash flows. The forward-looking statements contained in this Report are made as of the

date hereof and we disclaim any intention or obligation, other than imposed by law, to update or revise any forward-looking statements or to update the reasons actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or developments or otherwise. For further information concerning risk factors, see Part II. Item 1A. Risk Factors in this Report.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

In the normal course of doing business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We employ established policies and procedures governing the use of financial instruments to manage our exposure to such risks.

**Foreign Exchange and Currency:** We use foreign currency forward contracts and options to hedge both balance sheet and off-balance sheet future foreign currency commitments. Factors that could impact the effectiveness of our hedging programs for foreign currency include accuracy of sales estimates, volatility of currency markets and the cost and availability of hedging instruments. A 10 percent change in currency exchange rates for our foreign currency derivatives held at March 28, 2014 would not have had a material impact on the fair value of such instruments or our results of operations or cash flows. This quantification of exposure to the market risk associated with foreign currency financial instruments does not take into account the offsetting impact of changes in the fair value of our foreign denominated assets, liabilities and firm commitments. See *Note M Derivative Instruments and Hedging Activities* in the Notes for additional information.

**Interest Rates:** As of March 28, 2014, we had long-term debt obligations. The fair value of our long-term debt obligations is impacted by changes in interest rates; however, a 10 percent change in interest rates for our long-term debt obligations at March 28, 2014 would not have had a material impact on the fair value of such long-term debt obligations. Additionally, there is no interest rate risk associated with our long-term debt obligations on our results of operations and cash flows, because the interest rates on our long-term debt obligations are fixed, and because our long-term debt is not puttable (redeemable at the option of the holders of the debt prior to maturity).

---

## **Table of Contents**

As of March 28, 2014, we also had short-term variable-rate debt outstanding, primarily under our commercial paper program, subject to interest rate risk. We utilize our commercial paper program to satisfy short-term cash requirements, including bridge financing for strategic acquisitions until longer-term financing arrangements are put in place, temporarily funding repurchases under our share repurchase programs and temporarily funding redemption of long-term debt. The interest rate risk associated with this short-term debt on our results of operations and cash flows is not material.

We can give no assurances, however, that interest rates will not change significantly or have a material effect on the fair value of our long-term debt obligations or on our results of operations or cash flows over the next twelve months.

### **Item 4. Controls and Procedures.**

(a) *Evaluation of Disclosure Controls and Procedures:* We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rule 13a-15 under the Exchange Act, as of the end of the quarter ended March 28, 2014, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on this work and other evaluation procedures, our management, including our Chief Executive Officer and our Chief Financial Officer, has concluded that as of the end of the quarter ended March 28, 2014 our disclosure controls and procedures were effective.

(b) *Changes in Internal Control:* We periodically review our internal control over financial reporting as part of our efforts to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In addition, we routinely review our system of internal control over financial reporting to identify potential changes to our processes and systems that may improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating the activities of business units, migrating certain processes to our shared services organizations, formalizing policies and procedures, improving segregation of duties and increasing monitoring controls. In addition, when we acquire new businesses, we incorporate our controls and procedures into the acquired business as part of our integration activities. There have been no changes in our internal control over financial reporting that occurred during the quarter ended March 28, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

*General.* From time to time, as a normal incident of the nature and kind of business in which we are, and were, engaged, various claims or charges are asserted and litigation or arbitration is commenced by or against us arising from or related to matters including, but not limited to: product liability; personal injury; patents, trademarks, trade secrets or other intellectual property; labor and employee disputes; commercial or contractual disputes; strategic acquisitions or divestitures; the prior sale or use of former products allegedly containing asbestos or other restricted materials; breach of warranty; or environmental matters. Claimed amounts against us may be substantial but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals for losses related to those matters against us that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are expensed when incurred. Although it is not feasible to predict the outcome of these matters with certainty, it is reasonably possible that some lawsuits, claims or proceedings may be disposed of or decided unfavorably to us and in excess of the amounts currently accrued. Based on available information, in the opinion of management, settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in litigation or arbitration in existence at March 28, 2014 are reserved against or would not have a material adverse effect on our financial condition, results of operations or cash flows.

**Table of Contents**

*Tax Audits.* Our tax filings are subject to audit by taxing authorities in jurisdictions where we conduct business. These audits may result in assessments of additional taxes that are subsequently resolved with the authorities or ultimately through established legal proceedings. We believe we have adequately accrued for any ultimate amounts that are likely to result from these audits; however, final assessments, if any, could be different from the amounts recorded in our Condensed Consolidated Financial Statements (Unaudited).

**Item 1A. Risk Factors.**

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. Risk Factors in our Fiscal 2013 Form 10-K. We do not believe that there have been any material changes to the risk factors previously disclosed in our Fiscal 2013 Form 10-K. We may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial position and cash flows.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.***Issuer Purchases of Equity Securities*

During the third quarter of fiscal 2014, we repurchased 897,199 shares of our common stock under our 2013 Repurchase Program at an average price per share of \$71.79, excluding commissions. During the third quarter of fiscal 2013, we repurchased 3,377,202 shares of our common stock under our 2011 Repurchase Program at an average price per share of \$47.36, excluding commissions. The level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time. Shares repurchased by us are cancelled and retired.

The following table sets forth information with respect to repurchases by us of our common stock during the quarter ended March 28, 2014:

Period*	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)	Maximum approximate dollar value of shares that may yet be purchased under the plans or programs (1)
<b>Month No. 1</b>				
(December 28, 2013-January 24, 2014)				
Repurchase Programs (1)	None	n/a	None	\$ 983,461,199
Employee Transactions (2)	None	n/a	n/a	n/a
<b>Month No. 2</b>				
(January 25, 2014-February 21, 2014)				
Repurchase Programs (1)	454,400	\$ 70.27	454,400	\$ 951,531,640
Employee Transactions (2)	1,553	\$ 69.34	n/a	n/a
<b>Month No. 3</b>				
(February 22, 2014-March 28, 2014)				
Repurchase Programs (1)	442,799	\$ 73.36	442,799	\$ 919,049,755
Employee Transactions (2)	None	n/a	n/a	n/a
<b>Total</b>	<b>898,752</b>	<b>\$ 71.79</b>	<b>897,199</b>	<b>\$ 919,049,755</b>

\* Periods represent our fiscal months.

(1)

## Edgar Filing: HARRIS CORP /DE/ - Form 10-Q

On August 26, 2013, we announced that on August 23, 2013, our Board of Directors approved our 2013 Repurchase Program authorizing us to repurchase up to \$1 billion in shares of our common stock through open-market transactions, private transactions, transactions structured through investment banking institutions or any combination thereof. Our 2013 Repurchase Program was in addition to our 2011 Repurchase Program. Our repurchases during the quarter ended December 27, 2013 used the remaining authorization under our 2011 Repurchase Program. As of March 28, 2014, \$919,049,755 (as reflected in the table above) was the approximate dollar amount of our common stock that may yet be purchased under our 2013 Repurchase Program, which does not have a stated expiration date. Our 2013 Repurchase Program has resulted, and is expected to continue to result, in repurchases in excess of the dilutive effect of shares issued under our share-based incentive plans. However, the level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time.

- (2) Represents a combination of (a) shares of our common stock delivered to us in satisfaction of the exercise price and/or tax withholding obligation by holders of employee stock options who exercised stock options, (b) shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of performance shares or restricted shares that vested during the quarter, (c) performance shares, performance share units, restricted shares or restricted stock units returned to us upon retirement or employment termination of employees or (d) shares of our common stock purchased by, or sold to us by, the Harris Corporation Master Rabbi Trust, with the trustee thereof acting at our direction, to fund obligations of the Rabbi Trust under our deferred compensation plans. Our equity incentive plans provide that the value of shares delivered to us to pay the exercise price of options or to cover tax withholding obligations shall be the closing price of our common stock on the date the relevant transaction occurs.



---

**Table of Contents**

*Sales of Unregistered Securities*

During the third quarter of fiscal 2014, we did not issue or sell any unregistered equity securities.

**Item 3. Defaults Upon Senior Securities.**

Not Applicable.

**Item 4. Mine Safety Disclosures.**

Not Applicable.

**Item 5. Other Information.**

Not Applicable.

**Item 6. Exhibits.**

The following exhibits are filed herewith or incorporated by reference to exhibits previously filed with the SEC:

- (3) (a) Restated Certificate of Incorporation of Harris Corporation (1995), as amended, incorporated herein by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2012. (Commission File Number 1-3863)
- (b) By-Laws of Harris Corporation, as amended and restated effective October 26, 2012, incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on October 31, 2012. (Commission File Number 1-3863)
- (10) \*(a) Amendment Number Seven to the Harris Corporation Retirement Plan (Amended and Restated Effective January 1, 2011), dated December 28, 2013, incorporated herein by reference to Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 27, 2013. (Commission File Number 1-3863)
- \*(b) Offer Letter Agreement, dated February 4, 2014, between Harris Corporation and Miguel A. Lopez.
- \*(c) Separation Agreement and Release of All Claims, dated February 12, 2014, between Harris Corporation and Gary L. McArthur.
- (12) Computation of Ratio of Earnings to Fixed Charges.
- (15) Letter Regarding Unaudited Interim Financial Information.
- (31.1) Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- (31.2) Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- (32.1) Section 1350 Certification of Chief Executive Officer.
- (32.2) Section 1350 Certification of Chief Financial Officer.
- (101.INS) XBRL Instance Document.
- (101.SCH) XBRL Taxonomy Extension Schema Document.
- (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document.
- (101.LAB) XBRL Taxonomy Extension Label Linkbase Document.
- (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document.
- (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document.

\* Management contract or compensatory plan or arrangement.

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

HARRIS CORPORATION

(Registrant)

Date: April 30, 2014

By: /s/ Miguel A. Lopez  
Miguel A. Lopez  
Senior Vice President and Chief Financial Officer

(principal financial officer and duly authorized officer)

**Table of Contents**

**EXHIBIT INDEX**

**Exhibit No.**

**Under Reg. S-K,**

**Item 601**

**Description**

- |           |  |
|-----------|--|
| (3)       | (a) Restated Certificate of Incorporation of Harris Corporation (1995), as amended, incorporated herein by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2012. (Commission File Number 1-3863)   |
|           | (b) By-Laws of Harris Corporation, as amended and restated effective October 26, 2012, incorporated herein by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on October 31, 2012. (Commission File Number 1-3863)   |
| (10)      | * (a) Amendment Number Seven to the Harris Corporation Retirement Plan (Amended and Restated Effective January 1, 2011), dated December 28, 2013, incorporated herein by reference to Exhibit 10(c) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 27, 2013. (Commission File Number 1-3863) |
|           | * (b) Offer Letter Agreement, dated February 4, 2014, between Harris Corporation and Miguel A. Lopez.  |
|           | * (c) Separation Agreement and Release of All Claims, dated February 12, 2014, between Harris Corporation and Gary L. McArthur.  |
| (12)      | Computation of Ratio of Earnings to Fixed Charges.   |
| (15)      | Letter Regarding Unaudited Interim Financial Information.  |
| (31.1)    | Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.   |
| (31.2)    | Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.   |
| (32.1)    | Section 1350 Certification of Chief Executive Officer.   |
| (32.2)    | Section 1350 Certification of Chief Financial Officer.   |
| (101.INS) | XBRL Instance Document.  |
| (101.SCH) | XBRL Taxonomy Extension Schema Document.   |
| (101.CAL) | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| (101.LAB) | XBRL Taxonomy Extension Label Linkbase Document.   |
| (101.PRE) | XBRL Taxonomy Extension Presentation Linkbase Document.  |
| (101.DEF) | XBRL Taxonomy Extension Definition Linkbase Document.  |

\* Management contract or compensatory plan or arrangement.