

HARRIS CORP /DE/  
Form 10-Q  
February 10, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended January 2, 2015

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

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**(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.

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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 February 6, 2015 was 104,118,788 shares.

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**HARRIS CORPORATION**

**FORM 10-Q**

**For the Quarter Ended January 2, 2015**

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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                           |                      | Two Quarters Ended |                      |
|--|---|----------------------|--------------------|----------------------|
|  | January 2,<br>2015                      | December 27,<br>2013 | January 2,<br>2015 | December 27,<br>2013 |
|  | (In millions, except per share amounts) |                      |                    |                      |
| Revenue from product sales and services  | \$ 1,206.3                              | \$ 1,223.2           | \$ 2,361.7         | \$ 2,415.1           |
| Cost of product sales and services   | (807.8)                                 | (795.4)              | (1,570.4)          | (1,569.9)            |
| Engineering, selling and administrative expenses   | (187.5)                                 | (204.7)              | (382.7)            | (412.5)              |
| Non-operating income   | 0.2                                     | 3.2                  | 0.2                | 4.5                  |
| Interest income  | 0.7                                     | 0.7                  | 1.4                | 1.3                  |
| Interest expense   | (22.7)                                  | (23.7)               | (45.5)             | (47.4)               |
| Income from continuing operations before income taxes                                      | 189.2                                   | 203.3                | 364.7              | 391.1                |
| Income taxes   | (49.7)                                  | (66.2)               | (100.1)            | (126.6)              |
| Income from continuing operations  | 139.5                                   | 137.1                | 264.6              | 264.5                |
| Discontinued operations, net of income taxes   |   | (1.0)                |                    | (2.7)                |
| Net income   | 139.5                                   | 136.1                | 264.6              | 261.8                |
| Noncontrolling interests, net of income taxes  |   | 0.1                  |                    | 0.2                  |
| Net income attributable to Harris Corporation  | \$ 139.5                                | \$ 136.2             | \$ 264.6           | \$ 262.0             |
| <b>Amounts attributable to Harris Corporation common shareholders</b>                      |   |                      |                    |                      |
| Income from continuing operations  | \$ 139.5                                | \$ 137.2             | \$ 264.6           | \$ 264.7             |
| Discontinued operations, net of income taxes   |   | (1.0)                |                    | (2.7)                |
| Net income   | \$ 139.5                                | \$ 136.2             | \$ 264.6           | \$ 262.0             |
| <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  | \$ 1.34                                 | \$ 1.28              | \$ 2.52            | \$ 2.47              |
| Discontinued operations  |   | (0.01)               |                    | (0.03)               |
|  | \$ 1.34                                 | \$ 1.27              | \$ 2.52            | \$ 2.44              |
| Diluted net income per common share attributable to Harris Corporation common shareholders |   |                      |                    |                      |
| Continuing operations  | \$ 1.32                                 | \$ 1.27              | \$ 2.50            | \$ 2.45              |

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|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Discontinued operations                            |         | (0.01)  |         | (0.03)  |
|  | \$ 1.32 | \$ 1.26 | \$ 2.50 | \$ 2.42 |
| Cash dividends paid per common share               | \$ 0.47 | \$ 0.42 | \$ 0.94 | \$ 0.84 |
| Basic weighted average common shares outstanding   | 103.9   | 106.3   | 104.3   | 106.3   |
| Diluted weighted average common shares outstanding | 104.9   | 107.3   | 105.3   | 107.3   |

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      |                      | Two Quarters Ended |                      |
|---|--------------------|----------------------|--------------------|----------------------|
|   | January 2,<br>2015 | December 27,<br>2013 | January 2,<br>2015 | December 27,<br>2013 |
|   | (In millions)      |                      |                    |                      |
| Net income  | \$ 139.5           | \$ 136.1             | \$ 264.6           | \$ 261.8             |
| Other comprehensive income (loss):  |                    |                      |                    |                      |
| Foreign currency translation gain (loss)                                  | (45.3)             | (5.5)                | (73.9)             | 18.5                 |
| Net unrealized loss on hedging derivatives, net of income taxes           | (0.4)              | (0.1)                | (1.2)              | (0.4)                |
| Amortization of loss on treasury lock, net of income taxes                | 0.1                | 0.2                  | 0.3                | 0.3                  |
| Net unrecognized gain on post-retirement obligations, net of income taxes | 3.3                | 0.7                  | 11.8               | 1.3                  |
| Other comprehensive income (loss), net of income taxes                    | (42.3)             | (4.7)                | (63.0)             | 19.7                 |
| Total comprehensive income  | 97.2               | 131.4                | 201.6              | 281.5                |
| Comprehensive loss attributable to noncontrolling interests               |                    | 0.1                  |                    | 0.2                  |
| Total comprehensive income attributable to Harris Corporation             | \$ 97.2            | \$ 131.5             | \$ 201.6           | \$ 281.7             |

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

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

(Unaudited)

|   | January 2,<br>2015           | June 27,<br>2014  |
|---|------------------------------|-------------------|
|   | (In millions, except shares) |                   |
| <b>Assets</b>   |                              |                   |
| <i>Current Assets</i>   |                              |                   |
| Cash and cash equivalents   | \$ 469.5                     | \$ 561.0          |
| Receivables   | 582.0                        | 566.1             |
| Inventories   | 649.6                        | 618.7             |
| Income taxes receivable   | 21.6                         | 28.1              |
| Current deferred income taxes   | 116.3                        | 112.2             |
| Other current assets  | 107.0                        | 105.2             |
| <b>Total current assets</b>   | <b>1,946.0</b>               | <b>1,991.3</b>    |
| <i>Non-current Assets</i>   |                              |                   |
| Property, plant and equipment   | 724.5                        | 728.1             |
| Goodwill  | 1,676.5                      | 1,711.2           |
| Intangible assets   | 223.9                        | 257.5             |
| Non-current deferred income taxes   | 68.9                         | 87.3              |
| Other non-current assets  | 158.4                        | 155.8             |
| <b>Total non-current assets</b>   | <b>2,852.2</b>               | <b>2,939.9</b>    |
|   | <b>\$ 4,798.2</b>            | <b>\$ 4,931.2</b> |
| <b>Liabilities and Equity</b>   |                              |                   |
| <i>Current Liabilities</i>  |                              |                   |
| Short-term debt   | \$ 73.9                      | \$ 58.3           |
| Accounts payable  | 292.1                        | 324.3             |
| Compensation and benefits   | 150.8                        | 212.8             |
| Other accrued items   | 256.4                        | 249.8             |
| Advance payments and unearned income  | 253.3                        | 265.9             |
| Current deferred income taxes   |                              | 2.1               |
| Current portion of long-term debt   | 1.4                          | 1.4               |
| <b>Total current liabilities</b>  | <b>1,027.9</b>               | <b>1,114.6</b>    |
| <i>Non-current Liabilities</i>  |                              |                   |
| Long-term debt  | 1,575.8                      | 1,575.8           |
| Long-term contract liability  | 77.3                         | 83.8              |
| Other long-term liabilities   | 305.8                        | 331.6             |
| <b>Total non-current liabilities</b>  | <b>1,958.9</b>               | <b>1,991.2</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 104,079,487 shares at January 2, 2015 and 105,509,073 shares at June 27, 2014 |                              |                   |
|   | 104.1                        | 105.5             |
| Other capital   | 498.9                        | 509.1             |
| Retained earnings   | 1,286.5                      | 1,226.3           |



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|                                      |            |            |
|--------------------------------------|------------|------------|
| Accumulated other comprehensive loss | (77.9)     | (14.9)     |
| Total shareholders' equity           | 1,811.6    | 1,826.0    |
| Noncontrolling interests             | (0.2)      | (0.6)      |
| Total equity                         | 1,811.4    | 1,825.4    |
|                                      | \$ 4,798.2 | \$ 4,931.2 |

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

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

(Unaudited)

|   | Two Quarters Ended |                      |
|---|--------------------|----------------------|
|   | January 2,<br>2015 | December 27,<br>2013 |
|   | (In millions)      |                      |
| <b>Operating Activities</b>   |                    |                      |
| Net income  | \$ 264.6           | \$ 261.8             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                      |
| Depreciation and amortization   | 104.3              | 100.4                |
| Share-based compensation  | 17.4               | 18.5                 |
| Non-current deferred income taxes   | 6.5                | 25.2                 |
| Loss on sale of discontinued operations   |                    | 2.7                  |
| (Increase) decrease in:   |                    |                      |
| Accounts receivable   | (15.9)             | (2.7)                |
| Inventories   | (30.9)             | (20.0)               |
| Increase (decrease) in:   |                    |                      |
| Accounts payable and accrued expenses   | (119.9)            | (56.4)               |
| Advance payments and unearned income  | (12.6)             | (9.5)                |
| Income taxes  | 0.6                | (1.0)                |
| Other   | 8.1                | (39.5)               |
| Net cash provided by operating activities   | 222.2              | 279.5                |
| <b>Investing Activities</b>   |                    |                      |
| Additions of property, plant and equipment  | (79.1)             | (85.0)               |
| Proceeds from sale of Cyber Integration Center                                    | 7.0                | 27.0                 |
| Net cash used in investing activities   | (72.1)             | (58.0)               |
| <b>Financing Activities</b>   |                    |                      |
| Proceeds from borrowings  | 32.6               | 3.1                  |
| Repayments of borrowings  | (17.0)             | (62.6)               |
| Proceeds from exercises of employee stock options                                 | 28.2               | 99.8                 |
| Repurchases of common stock   | (163.8)            | (156.8)              |
| Cash dividends  | (99.5)             | (90.4)               |
| Net cash used in financing activities   | (219.5)            | (206.9)              |
| Effect of exchange rate changes on cash and cash equivalents                      | (22.1)             | (1.2)                |
| <b>Net increase (decrease) in cash and cash equivalents</b>                       | <b>(91.5)</b>      | <b>13.4</b>          |
| <b>Cash and cash equivalents, beginning of year</b>                               | <b>561.0</b>       | <b>321.0</b>         |
| <b>Cash and cash equivalents, end of quarter</b>                                  | <b>\$ 469.5</b>    | <b>\$ 334.4</b>      |

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

**Table of Contents****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****January 2, 2015****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 second quarter and first two quarters of fiscal 2015 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 27, 2014 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 27, 2014 (our Fiscal 2014 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.

*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 2015, we adopted an accounting standard issued by the Financial Accounting Standards Board (FASB) 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 substantially complete liquidation of such foreign entity, any related CTA should be reclassified from accumulated other comprehensive income (AOCI) and included in the calculation of the gain or loss on the sale or transfer. Upon a sale or complete or substantially complete 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. The adoption of this standard did not impact our financial position, results of operations or cash flows.

In the first quarter of fiscal 2015, we also adopted an accounting standard issued by the FASB 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. The adoption of this standard did not impact our financial position, results of operations or cash flows.

*Accounting Standards Issued But Not Yet Effective*

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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.

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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. Early adoption is permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issuance. The adoption of this standard is not expected to have a material impact on our financial position, results of operations or cash flows.

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes nearly all revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards and supersedes some cost guidance for construction-type and production-type contracts. The guidance in this standard is principles-based, and accordingly, entities will be required to use more judgment and make more estimates than under prior guidance, including identifying contract performance obligations, estimating variable consideration to include in the contract price and allocating the transaction price to separate performance obligations. The guidance in this standard is applicable to all contracts with customers, regardless of industry-specific or transaction-specific fact patterns. Additionally, this standard provides guidance for transactions that were not previously addressed comprehensively (e.g., service revenue, contract modifications and licenses of intellectual property) and modifies guidance for multiple-element arrangements. The core principle of this standard is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To help financial statement users better understand the nature, amount, timing and potential uncertainty of the revenue that is recognized, this standard requires significantly more interim and annual disclosures. This standard allows for either full retrospective adoption (application to all periods presented) or modified retrospective adoption (application to only the most current period presented in the financial statements, as well as certain additional required footnote disclosures). This standard is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2016, which for us is our fiscal 2018. We are currently evaluating the impact this standard will have on our financial position, results of operations and 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. In the first quarter of fiscal 2014, 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 (the CIS Note, which we collected in the first quarter of fiscal 2015).

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 (the Buyer ) 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 arbitration), a \$15 million subordinated promissory note (which was collected in fiscal 2014) and an earnout of up to \$50 million based on future performance. In the arbitration noted above, the current range of possible outcomes is no additional adjustment to the purchase price, based on our calculation of post-closing working capital, on one hand, to an additional downward adjustment of \$81 million to the purchase price, based on the Buyer's claims in its calculation of post-closing working capital. We are not able to determine the likely outcome of the arbitration, but we believe the Buyer's claims in its calculation of post-closing working capital are without merit and its asserted additional downward adjustment to the purchase price is significantly overstated, and we intend to defend against the Buyer's claims and asserted additional downward adjustment to the purchase price vigorously.

Both CIS and Broadcast Communications were formerly part of our Integrated Network Solutions segment.

In the second quarter of fiscal 2014, discontinued operations consisted of a \$1.7 million (\$1.0 million after-tax) increase in the loss on sale of Broadcast Communications from miscellaneous adjustments for contingencies related to the disposition. In the first two quarters of fiscal 2014, discontinued operations consisted of a \$6.6 million (\$4.6 million after-tax) increase in the loss on sale of Broadcast Communications from miscellaneous adjustments for contingencies related to the disposition and a \$3.1 million (\$1.9 million after-tax) gain on the sale of the remaining assets of CIS.

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

**Table of Contents****Note C Stock Options and Other Share-Based Compensation**

During the first two quarters of fiscal 2015, we had two shareholder-approved employee stock incentive plans ( SIPs ), including the Harris Corporation 2005 Equity Incentive Plan (As Amended and Restated Effective August 27, 2010), under which options or other share-based compensation was outstanding, and we have granted the following types of share-based awards under these 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 second quarter and first two quarters of fiscal 2015 was \$9.4 million and \$17.4 million, respectively. The compensation cost related to our share-based awards that was charged against income for the second quarter and first two quarters of fiscal 2014 was \$10.1 million and \$18.5 million, respectively.

Grants to employees under our SIPs during the second quarter of fiscal 2015 consisted of 4,450 stock options, 1,000 performance share unit awards and 4,880 restricted stock awards. Grants to employees under our SIPs during the first two quarters of fiscal 2015 consisted of 981,150 stock options, 212,550 performance share unit awards, 13,730 restricted stock awards and 3,600 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 2.69 percent; expected volatility of 24.33 percent; risk-free interest rates averaging 1.68 percent; and expected term in years of 5.02. 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 payments of cash dividend-equivalents that are made only upon vesting. The fair value as of the grant date of each restricted stock or restricted stock unit award was based on the closing price of our common stock on the grant date.

**Note D Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss are summarized below:

|   | January 2,<br>2015<br>(1) | June 27,<br>2014 |
|---|---------------------------|------------------|
|   | (In millions)             |                  |
| Foreign currency translation gain (loss)  | \$ (67.3)                 | \$ 6.6           |
| Net unrealized gain (loss) on hedging derivatives, net of income taxes  | (1.0)                     | 0.2              |
| Unamortized loss on treasury lock, net of income taxes  | (1.6)                     | (1.9)            |
| Unrecognized loss on post-retirement obligations, net of income taxes of \$3.5 million and \$9.5 million at January 2, 2015 and June 27, 2014, respectively | (8.0)                     | (19.8)           |
|   | \$ (77.9)                 | \$ (14.9)        |

(1) Reclassifications out of accumulated other comprehensive loss to earnings were not material for the first two quarters of fiscal 2015 or 2014.

**Note E Receivables**

Receivables are summarized below:

|  | January 2,<br>2015 | June 27,<br>2014 |
|--|--------------------|------------------|
|  | (In millions)      |                  |
| Accounts receivable  | \$ 497.2           | \$ 457.9         |
| Unbilled costs and accrued earnings on cost-plus contracts | 91.0               | 115.5            |
|  | 588.2              | 573.4            |

|                                       |          |          |
|---------------------------------------|----------|----------|
| Less allowances for collection losses | (6.2)    | (7.3)    |
|                                       | \$ 582.0 | \$ 566.1 |



**Table of Contents****Note F Inventories**

Inventories are summarized below:

|  | January 2,<br>2015 | June 27,<br>2014 |
|--|--------------------|------------------|
|  | (In millions)      |                  |
| Unbilled costs and accrued earnings on fixed-price contracts | \$ 346.7           | \$ 347.2         |
| Finished products  | 101.6              | 104.8            |
| Work in process  | 38.5               | 35.7             |
| Raw materials and supplies                                   | 162.8              | 131.0            |
|  | \$ 649.6           | \$ 618.7         |

Unbilled costs and accrued earnings on fixed-price contracts were net of progress payments of \$84.3 million at January 2, 2015 and \$100.7 million at June 27, 2014.

**Note G Property, Plant and Equipment**

Property, plant and equipment are summarized below:

|  | January 2,<br>2015 | June 27,<br>2014 |
|--|--------------------|------------------|
|  | (In millions)      |                  |
| Land   | \$ 12.5            | \$ 12.7          |
| Software capitalized for internal use          | 142.0              | 135.5            |
| Buildings                                      | 524.2              | 492.4            |
| Machinery and equipment                        | 1,112.1            | 1,103.6          |
|  | 1,790.8            | 1,744.2          |
| Less accumulated depreciation and amortization | (1,066.3)          | (1,016.1)        |
|  | \$ 724.5           | \$ 728.1         |

Depreciation and amortization expense related to property, plant and equipment for the second quarter and first two quarters of fiscal 2015 was \$38.0 million and \$73.4 million, respectively. Depreciation and amortization expense related to property, plant and equipment for the second quarter and first two quarters of fiscal 2014 was \$35.0 million and \$69.7 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 first two quarters of fiscal 2015 were as follows:

|  | (In millions) |
|--|---------------|
| Balance at June 27, 2014   | \$ 33.3       |
| Warranty provision for sales made during the first two quarters of fiscal 2015 | 7.0           |
| Settlements made during the first two quarters of fiscal 2015                  | (7.1)         |
|  | (3.1)         |

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Other adjustments to warranty liability, including those for foreign currency translation, during the first two quarters of fiscal 2015

|                            |    |      |
|----------------------------|----|------|
| Balance at January 2, 2015 | \$ | 30.1 |
|----------------------------|----|------|

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 January 2, 2015 and June 27, 2014 was \$35.5 million and \$38.9 million, respectively, and is included as a component of the Advance payments and unearned income and Other long-term liabilities line items in the accompanying Condensed Consolidated Balance Sheet (Unaudited).

**Table of Contents****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                           |                      | Two Quarters Ended |                      |
|---|---|----------------------|--------------------|----------------------|
|   | January 2,<br>2015                      | December 27,<br>2013 | January 2,<br>2015 | December 27,<br>2013 |
|   | (In millions, except per share amounts) |                      |                    |                      |
| Income from continuing operations   | \$ 139.5                                | \$ 137.2             | \$ 264.6           | \$ 264.7             |
| Adjustments for participating securities outstanding  | (0.6)                                   | (0.8)                | (1.4)              | (2.0)                |
| Income from continuing operations used in per basic and diluted common share calculations (A) | \$ 138.9                                | \$ 136.4             | \$ 263.2           | \$ 262.7             |
| Basic weighted average common shares outstanding (B)  | 103.9                                   | 106.3                | 104.3              | 106.3                |
| Impact of dilutive share-based awards   | 1.0                                     | 1.0                  | 1.0                | 1.0                  |
| Diluted weighted average common shares outstanding (C)  | 104.9                                   | 107.3                | 105.3              | 107.3                |
| Income from continuing operations per basic common share (A)/(B)                              | \$ 1.34                                 | \$ 1.28              | \$ 2.52            | \$ 2.47              |
| Income from continuing operations per diluted common share (A)/(C)                            | \$ 1.32                                 | \$ 1.27              | \$ 2.50            | \$ 2.45              |

Potential dilutive common shares primarily consist of employee stock options and performance share and performance share unit awards. Employee stock options to purchase approximately 678,650 and 1,291,044 shares of our common stock were outstanding at January 2, 2015 and December 27, 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.

**Note J Income Taxes**

Our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) was 26.3 percent in the second quarter of fiscal 2015 compared with 32.6 percent in the second quarter of fiscal 2014. In the second quarter of fiscal 2015, legislation was enacted that restored the U.S. Federal income tax credit for qualifying research and development ( R&D ) expenses for calendar year 2014. This resulted in a benefit of approximately \$6.6 million (approximately 3.5 percent of income from continuing operations before income taxes) in calculating our effective tax rate in the second quarter of fiscal 2015. Approximately half of this benefit related to R&D expenses in the second half of fiscal 2014 and the remainder related to R&D expenses in the first half of fiscal 2015. Additionally, in the second quarter of fiscal 2015, our effective tax rate benefited by approximately \$7.6 million (approximately 4.0 percent of income from continuing operations before income taxes) due to finalizing issues with Canadian and U.S. tax authorities for amounts lower than previously recorded estimates. In the second quarter of fiscal 2014, our effective tax rate benefited from a refund resulting from a consolidation of foreign subsidiaries.

Our effective tax rate was 27.4 percent in the first two quarters of fiscal 2015 compared with 32.4 percent in the first two quarters of fiscal 2014. In the first two quarters of fiscal 2015, our effective tax rate benefited from the discrete items noted above regarding the second quarter of fiscal 2015, as well as from the recognition, in the first quarter of fiscal 2015, of foreign tax credits resulting from a dividend paid by a foreign subsidiary during fiscal 2013 that exceeded the U.S. tax liability in respect of the dividend. These discrete items resulted in an aggregate benefit of approximately \$23 million (approximately 6 percent of income from continuing operations before income taxes) in calculating our effective tax rate in the first two quarters of fiscal 2015. In the first two quarters of fiscal 2014, our effective tax rate benefited from the settlement of a state tax audit and a refund resulting from a consolidation of foreign subsidiaries.

**Note K Fair Value Measurements**

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

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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.

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

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 January 2, 2015:

|   | Level 1       | Level 2 | Level 3 | Total   |
|---|---------------|---------|---------|---------|
|   | (In millions) |         |         |         |
| <b>Assets</b>                               |               |         |         |         |
| Deferred compensation plan investments: (1) |               |         |         |         |
| Money market fund                           | \$ 31.3       | \$      | \$      | \$ 31.3 |
| Stock fund                                  | 59.1          |         |         | 59.1    |
| Equity security                             | 31.8          |         |         | 31.8    |
| Pension plan investments: (2)               |               |         |         |         |
| Stock funds                                 | 31.5          |         |         | 31.5    |
| Corporate bonds                             | 9.3           |         |         | 9.3     |
| Government securities                       | 51.2          |         |         | 51.2    |
| Foreign currency forward contracts (3)      |               | 0.5     |         | 0.5     |
| <b>Liabilities</b>                          |               |         |         |         |
| Deferred compensation plans (4)             | 40.2          | 85.4    |         | 125.6   |
| Foreign currency forward contracts (5)      |               | 2.6     |         | 2.6     |

- (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):

|  | January 2, 2015 |            | June 27, 2014   |            |
|--|-----------------|------------|-----------------|------------|
|  | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
|  | (In millions)   |            |                 |            |
| <b>Financial Liabilities</b>                   |                 |            |                 |            |
| Long-term debt (including current portion) (1) | \$ 1,577.2      | \$ 1,809.3 | \$ 1,577.2      | \$ 1,799.6 |

- (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 L Derivative Instruments and Hedging Activities**

In the normal course of doing business, we are exposed to global market risks, including the effect of changes in foreign currency exchange rates. We use derivative instruments to manage our exposure to such risks and formally document all relationships between hedging instruments

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and hedged items, as well as the risk-management objective and strategy for undertaking hedge transactions. We recognize all derivatives in the accompanying Condensed Consolidated Balance Sheet (Unaudited) at fair value. We do not hold or issue derivatives for trading purposes.

At January 2, 2015, we had open foreign currency forward contracts with an aggregate notional amount of \$70.2 million, of which

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\$55.7 million were classified as fair value hedges and \$14.5 million were classified as cash flow hedges. This compares with open foreign currency forward contracts with an aggregate notional amount of \$155.7 million at June 27, 2014, of which \$119.6 million were classified as fair value hedges and \$36.1 million were classified as cash flow hedges. At January 2, 2015, contract expiration dates ranged from less than 1 month to 6 months with a weighted average contract life of 1 month.

### *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 January 2, 2015, we had outstanding foreign currency forward contracts denominated in the British Pound, Australian Dollar, Norwegian Krone, Singapore Dollar, Euro and Mexican Peso to hedge certain balance sheet items. The net gains or losses on foreign currency forward contracts designated as fair value hedges were not material in the second quarter and first two quarters of fiscal 2015 or 2014. In addition, no amounts were recognized in earnings in the second quarter and first two quarters of fiscal 2015 or 2014 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 across our business segments. We also have hedged U.S. Dollar payments to suppliers to maintain our anticipated profit margins in our international operations. As of January 2, 2015, we had outstanding foreign currency forward contracts denominated in the Brazilian Real, British Pound, Australian Dollar, Canadian Dollar and Euro 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 second quarter and first two quarters of fiscal 2015 or 2014. 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 January 2, 2015 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 K 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 January 2, 2015, and see the accompanying Condensed Consolidated Statement of Comprehensive Income (Unaudited) for additional information on changes in accumulated other comprehensive loss in the second quarter and first two quarters of fiscal 2015.

**Table of Contents****Note M 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 second quarter and first two quarters of fiscal 2015 by \$16.3 million (\$0.11 per diluted share) and \$38.4 million (\$0.26 per diluted share), respectively. Net EAC adjustments resulting from changes in estimates favorably impacted our operating income in the second quarter and first two quarters of fiscal 2014 by \$8.2 million (\$0.05 per diluted share) and \$20.5 million (\$0.13 per diluted share), respectively.

**Note N 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, Government Communications Systems and Integrated Network Solutions. Our RF Communications segment is a global supplier of secure tactical radio communications and high-grade encryption solutions for military, government and commercial customers and also of secure communications systems and equipment for public safety, utility and transportation customers. 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. Our Integrated Network Solutions segment provides government, energy, maritime and healthcare customers with integrated communications and information technology ( IT ) and services, including mission-critical end-to-end IT services, managed satellite and terrestrial communications solutions and standards-based healthcare interoperability solutions. Each business segment is comprised of multiple program areas and product and service lines that aggregate into such business segment.





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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 2014 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:

|                                   | January 2,<br>2015 | June 27,<br>2014 |
|-----------------------------------|--------------------|------------------|
|                                   | (In millions)      |                  |
| <b>Total Assets</b>               |                    |                  |
| RF Communications                 | \$ 1,306.4         | \$ 1,253.9       |
| Government Communications Systems | 995.1              | 975.4            |
| Integrated Network Solutions      | 1,661.8            | 1,746.5          |
| Corporate                         | 834.9              | 955.4            |
|                                   | \$ 4,798.2         | \$ 4,931.2       |

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

|  | Quarter Ended      |                      | Two Quarters Ended |                      |
|--|--------------------|----------------------|--------------------|----------------------|
|  | January 2,<br>2015 | December 27,<br>2013 | January 2,<br>2015 | December 27,<br>2013 |
|  | (In millions)      |                      |                    |                      |
| <b>Revenue</b>   |                    |                      |                    |                      |
| RF Communications  | \$ 432.2           | \$ 454.6             | \$ 819.3           | \$ 877.6             |
| Government Communications Systems                            | 454.3              | 433.0                | 915.0              | 844.6                |
| Integrated Network Solutions                                 | 339.6              | 365.9                | 665.3              | 741.5                |
| Corporate eliminations                                       | (19.8)             | (30.3)               | (37.9)             | (48.6)               |
|  | \$ 1,206.3         | \$ 1,223.2           | \$ 2,361.7         | \$ 2,415.1           |
| <b>Income From Continuing Operations Before Income Taxes</b> |                    |                      |                    |                      |
| <i>Segment Operating Income:</i>                             |                    |                      |                    |                      |
| RF Communications  | \$ 124.8           | \$ 142.1             | \$ 241.5           | \$ 277.3             |
| Government Communications Systems                            | 77.6               | 66.5                 | 151.5              | 130.5                |
| Integrated Network Solutions                                 | 28.5               | 32.7                 | 51.6               | 62.4                 |
| Unallocated corporate expense                                | (16.8)             | (14.4)               | (30.7)             | (30.4)               |
| Corporate eliminations                                       | (3.1)              | (3.8)                | (5.3)              | (7.1)                |
| Non-operating income (1)                                     | 0.2                | 3.2                  | 0.2                | 4.5                  |
| Net interest expense   | (22.0)             | (23.0)               | (44.1)             | (46.1)               |
|  | \$ 189.2           | \$ 203.3             | \$ 364.7           | \$ 391.1             |

(1) Non-operating income includes equity method investment income (loss); income (expense) related to intellectual property matters; gains and losses on sales of investments, securities available-for-sale and prepayment of long-term debt; and impairments of investments and securities available-for-sale.

**Note O Subsequent Event**

Subsequent to the end of the second quarter of fiscal 2015, on February 6, 2015, we announced a definitive agreement under which we will acquire 100 percent of Exelis Inc. ( Exelis ) in a cash and stock transaction valued at \$23.75 per share, or an approximately \$4.75 billion enterprise value, based on the closing price of our common stock as of February 5, 2015. Under the terms of the transaction, Exelis shareholders will receive \$16.625 in cash, without interest, and 0.1025 of a share of our common stock for each share of Exelis common stock. Upon closing, our shareholders will own approximately 85 percent of the combined company, and Exelis shareholders will own approximately 15 percent of the combined company. The agreement has been unanimously approved by the Boards of Directors of both companies. The transaction is subject to customary closing conditions, including regulatory and Exelis shareholder approval, and we currently expect the closing to occur in June 2015, although we can give no assurances regarding the timing or occurrence of closing. We have secured \$3.4 billion of fully committed bridge financing for the transaction and expect to put in place permanent financing in the form of term loans and unsecured bonds prior to closing.

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Exelis is a diversified, global aerospace, defense, information and services company headquartered in McLean, Virginia that employs approximately 10,000 people and generated calendar 2014 sales of approximately \$3.25 billion. Exelis leverages its deep customer knowledge and technical expertise to deliver affordable, mission-critical solutions for global customers and is a leader in positioning and navigation, sensors, air traffic management solutions, image processing and distribution, communications and information systems. Exelis is focused on strategic growth in the areas of critical networks; intelligence, surveillance, reconnaissance ( ISR ) and analytics; electronic warfare; and composite aerostructures.

The foregoing description of the definitive agreement and the transactions contemplated thereby is not complete and is subject to, and qualified in its entirety by reference to, the Agreement and Plan of Merger, dated as of February 5, 2015, by and among Exelis, us, and Harris Communication Solutions (Indiana), Inc., one of our wholly owned subsidiaries, a copy of which was filed as an exhibit to our Current Report on Form 8-K filed on February 9, 2015.

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

The Board of Directors and Shareholders of Harris Corporation

We have reviewed the unaudited condensed consolidated balance sheet of Harris Corporation and subsidiaries as of January 2, 2015, and the related unaudited condensed consolidated statements of income and comprehensive income for the quarter and two quarters ended January 2, 2015 and December 27, 2013, and the unaudited condensed consolidated statements of cash flows for the two quarters ended January 2, 2015 and December 27, 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 unaudited condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Harris Corporation and subsidiaries as of June 27, 2014, 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 opinion on those consolidated financial statements in our report dated August 25, 2014. In our opinion, the accompanying condensed consolidated balance sheet of Harris Corporation and subsidiaries as of June 27, 2014, 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

February 10, 2015

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

#### **OVERVIEW**

The following Management's Discussion and Analysis (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 2014 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 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.

As discussed further in *Note O – Subsequent Event* in the Notes, subsequent to the end of the second quarter of fiscal 2015, on February 6, 2015, we announced a definitive agreement under which we will acquire 100 percent of Exelis in a cash and stock transaction valued at \$23.75 per share, or an approximately \$4.75 billion enterprise value, based on the closing price of our common stock as of February 5, 2015. Under the terms of the transaction, Exelis shareholders will receive \$16.625 in cash, without interest, and 0.1025 of a share of our common stock for each share of Exelis common stock. Upon closing, our shareholders will own approximately 85 percent of the combined company, and Exelis shareholders will own approximately 15 percent of the combined company. The agreement has been unanimously approved by the Boards of Directors of both companies. The transaction is subject to customary closing conditions, including regulatory and Exelis shareholder approval, and we currently expect the closing to occur in June 2015, although we can give no assurances regarding the timing or occurrence of closing. We have secured \$3.4 billion of fully committed bridge financing for the transaction and expect to put in place permanent financing in the form of term loans and unsecured bonds prior to closing.

#### **RESULTS OF OPERATIONS**

##### **Highlights**

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Operations results for the second quarter of fiscal 2015 include:

Revenue decreased 1.4 percent to \$1,206.3 million in the second quarter of fiscal 2015 from \$1,223.2 million in the second quarter of fiscal 2014;

Income from continuing operations increased 1.7 percent to \$139.5 million in the second quarter of fiscal 2015 compared with \$137.2 million in the second quarter of fiscal 2014;

Income from continuing operations per diluted share increased 3.9 percent to \$1.32 in the second quarter of fiscal 2015 compared with \$1.27 in the second quarter of fiscal 2014;

Our RF Communications segment revenue decreased 4.9 percent to \$432.2 million and operating income decreased 12.2 percent to \$124.8 million in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014;

Our Government Communications Systems segment revenue increased 4.9 percent to \$454.3 million and operating income increased 16.7 percent to \$77.6 million in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014;

Our Integrated Network Solutions segment revenue decreased 7.2 percent to \$339.6 million and operating income decreased 12.8 percent to \$28.5 million in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014; and

Net cash provided by operating activities decreased 20.5 percent to \$222.2 million in the first two quarters of fiscal 2015 compared with \$279.5 million in the first two quarters of fiscal 2014.

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

|  | January 2,<br>2015 | Quarter Ended<br>December 27,<br>2013 | %<br>Inc/(Dec) | January 2,<br>2015 | Two Quarters Ended<br>December 27,<br>2013 | %<br>Inc/(Dec) |
|--|--------------------|---------------------------------------|----------------|--------------------|--|----------------|
| (Dollars in millions, except per share amounts)  |                    |                                       |                |                    |  |                |
| <b>Revenue:</b>  |                    |                                       |                |                    |  |                |
| RF Communications  | \$ 432.2           | \$ 454.6                              | (4.9)%         | \$ 819.3           | \$ 877.6                                   | (6.6)%         |
| Government Communications Systems  | 454.3              | 433.0                                 | 4.9 %          | 915.0              | 844.6                                      | 8.3 %          |
| Integrated Network Solutions   | 339.6              | 365.9                                 | (7.2)%         | 665.3              | 741.5                                      | (10.3)%        |
| Corporate eliminations   | (19.8)             | (30.3)                                | (34.7)%        | (37.9)             | (48.6)                                     | (22.0)%        |
| <b>Total revenue</b>   | <b>1,206.3</b>     | <b>1,223.2</b>                        | <b>(1.4)%</b>  | <b>2,361.7</b>     | <b>2,415.1</b>                             | <b>(2.2)%</b>  |
| Cost of product sales and services   | (807.8)            | (795.4)                               | 1.6 %          | (1,570.4)          | (1,569.9)                                  | 0.0 %          |
| Gross margin   | 398.5              | 427.8                                 | (6.8)%         | 791.3              | 845.2                                      | (6.4)%         |
| <i>% of total revenue</i>  | <i>33.0 %</i>      | <i>35.0 %</i>                         |                | <i>33.5 %</i>      | <i>35.0 %</i>                              |                |
| Engineering, selling and administrative expenses   | (187.5)            | (204.7)                               | (8.4)%         | (382.7)            | (412.5)                                    | (7.2)%         |
| <i>% of total revenue</i>  | <i>15.5 %</i>      | <i>16.7 %</i>                         |                | <i>16.2 %</i>      | <i>17.1 %</i>                              |                |
| Non-operating income   | 0.2                | 3.2                                   | (93.8)%        | 0.2                | 4.5  | (95.6)%        |
| Net interest expense   | (22.0)             | (23.0)                                | (4.3)%         | (44.1)             | (46.1)                                     | (4.3)%         |
| Income from continuing operations before income taxes  | 189.2              | 203.3                                 | (6.9)%         | 364.7              | 391.1                                      | (6.8)%         |
| Income taxes   | (49.7)             | (66.2)                                | (24.9)%        | (100.1)            | (126.6)                                    | (20.9)%        |
| <i>Effective tax rate</i>  | <i>26.3 %</i>      | <i>32.6 %</i>                         |                | <i>27.4 %</i>      | <i>32.4 %</i>                              |                |
| <b>Income from continuing operations</b>   | <b>139.5</b>       | <b>137.1</b>                          | <b>1.8 %</b>   | <b>264.6</b>       | <b>264.5</b>                               | <b>0.0 %</b>   |
| Noncontrolling interests, net of income taxes  |                    | 0.1                                   | *              |                    | 0.2  | *              |
| <b>Income from continuing operations attributable to Harris Corporation common shareholders</b>                          | <b>139.5</b>       | <b>137.2</b>                          | <b>1.7 %</b>   | <b>264.6</b>       | <b>264.7</b>                               | <b>(0.0)%</b>  |
| <i>% of total revenue</i>  | <i>11.6 %</i>      | <i>11.2 %</i>                         |                | <i>11.2 %</i>      | <i>11.0 %</i>                              |                |
| Discontinued operations, net of income taxes   |                    | (1.0)                                 | *              |                    | (2.7)                                      | *              |
| <b>Net income attributable to Harris Corporation common shareholders</b>   | <b>\$ 139.5</b>    | <b>\$ 136.2</b>                       | <b>2.4 %</b>   | <b>\$ 264.6</b>    | <b>\$ 262.0</b>                            | <b>1.0 %</b>   |
| <b>Income from continuing operations per diluted common share attributable to Harris Corporation common shareholders</b> | <b>\$ 1.32</b>     | <b>\$ 1.27</b>                        | <b>3.9 %</b>   | <b>\$ 2.50</b>     | <b>\$ 2.45</b>                             | <b>2.0 %</b>   |

\* Not meaningful

**Revenue**



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*Second Quarter 2015 Compared With Second Quarter 2014:* The decrease in revenue in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was due to lower revenue in our Integrated Network Solutions and RF Communications segments, partially offset by higher revenue in our Government Communications Systems segment.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* The decrease in revenue in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was due to lower revenue in our Integrated Network Solutions and RF Communications segments, partially offset by higher revenue in our Government Communications Systems segment.

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

### **Gross Margin Percentage**

*Second Quarter 2015 Compared With Second Quarter 2014:* The decrease in gross margin as a percentage of total revenue ( gross margin percentage ) in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was due to a lower percentage of our overall revenue generated by our higher-margin RF Communications segment and gross margin percentage point decreases of 3.9 and 2.3 in our Integrated Network Solutions and RF Communications segments, respectively, partially offset by a gross margin percentage point increase of 1.1 in our Government Communications Systems segment.

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*First Two Quarters 2015 Compared With First Two Quarters 2014:* The decrease in gross margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to a lower percentage of our overall revenue generated by our higher-margin RF Communications segment and gross margin percentage point decreases of 2.3 and 1.7 in our Integrated Network Solutions and RF Communications segments, respectively, partially offset by a gross margin percentage point increase of 0.2 in our Government Communications Systems segment.

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

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

*Second Quarter 2015 Compared With Second Quarter 2014:* The decreases in engineering, selling and administrative ( ESA ) expenses and ESA expenses as a percentage of total revenue ( ESA percentage ) in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 were primarily due to lower general and administrative expenses in our Integrated Network Solutions segment.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* The decreases in ESA expenses and ESA percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 were primarily due to lower general and administrative expenses in our Integrated Network Solutions segment as noted above and lower general and administrative expenses resulting from operational excellence improvements and cost-reduction actions, the benefit from our collection of the CIS Note in the first quarter of fiscal 2015, and an accrual in the first quarter of 2014 for legal matters related to a Public Safety and Professional Communications program. These drivers of the decreases in ESA expenses and ESA percentage were partially offset by higher spending on Tactical Communications research and development.

See the Discussion of Business Segment Results of Operations discussion below in this MD&A and *Note B Discontinued Operations* in the Notes for further information.

### **Income Taxes**

*Second Quarter 2015 Compared With Second Quarter 2014:* In the second quarter of fiscal 2015, legislation was enacted that restored the U.S. Federal income tax credit for qualifying R&D expenses for calendar year 2014. This resulted in a benefit of approximately \$6.6 million (approximately 3.5 percent of income from continuing operations before income taxes) in calculating our effective tax rate in the second quarter of fiscal 2015. Approximately half of this benefit related to R&D expenses in the second half of fiscal 2014 and the remainder related to R&D expenses in the first half of fiscal 2015. Additionally, in the second quarter of fiscal 2015, our effective tax rate benefited by approximately \$7.6 million (approximately 4.0 percent of income from continuing operations before income taxes) due to finalizing issues with Canadian and U.S. tax authorities for amounts lower than previously recorded estimates. In the second quarter of fiscal 2014, our effective tax rate benefited from a refund resulting from a consolidation of foreign subsidiaries.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* In the first two quarters of fiscal 2015, our effective tax rate benefited from the discrete items noted above regarding the second quarter of fiscal 2015, as well as from the recognition of foreign tax credits resulting from a dividend paid by a foreign subsidiary during fiscal 2013 that exceeded the U.S. tax liability in respect of the dividend. These discrete items resulted in an aggregate benefit of approximately \$23 million (approximately 6 percent of income from continuing operations before income taxes) in calculating our effective tax rate in the first two quarters of fiscal 2015. In the first two quarters of fiscal 2014, our effective tax rate benefited from the settlement of a state tax audit and a refund resulting from a consolidation of foreign subsidiaries.

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

*Second Quarter 2015 Compared With Second Quarter 2014:* The increase in income from continuing operations per diluted common share in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to the same reasons noted above in this MD&A regarding the second quarters of fiscal 2015 and 2014, as well as the reduction in average common shares outstanding as a result of shares repurchased.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* The increase in income from continuing operations per diluted common share in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to the same reasons as noted above in this MD&A regarding the first two quarters of fiscal 2015 and 2014, as well as the reduction in average common shares outstanding as a result of shares repurchased.

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         |                      |                    | Two Quarters Ended |                      |                    |
|------------------------------------|-----------------------|----------------------|--------------------|--------------------|----------------------|--------------------|
|                                    | January 2,<br>2015    | December 27,<br>2013 | %<br>Inc/<br>(Dec) | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec) |
|                                    | (Dollars in millions) |                      |                    |                    |                      |                    |
| Revenue                            | \$ 432.2              | \$ 454.6             | (4.9)%             | \$ 819.3           | \$ 877.6             | (6.6)%             |
| Cost of product sales and services | (217.9)               | (218.5)              | (0.3)%             | (402.4)            | (416.3)              | (3.3)%             |
| Gross margin                       | 214.3                 | 236.1                | (9.2)%             | 416.9              | 461.3                | (9.6)%             |
| % of revenue                       | 49.6 %                | 51.9 %               |                    | 50.9 %             | 52.6 %               |                    |
| ESA expenses                       | (89.5)                | (94.0)               | (4.8)%             | (175.4)            | (184.0)              | (4.7)%             |
| % of revenue                       | 20.7 %                | 20.7 %               |                    | 21.4 %             | 21.0 %               |                    |
| Segment operating income           | \$ 124.8              | \$ 142.1             | (12.2)%            | \$ 241.5           | \$ 277.3             | (12.9)%            |
| % of revenue                       | 28.9 %                | 31.3 %               |                    | 29.5 %             | 31.6 %               |                    |

*Second Quarter 2015 Compared With Second Quarter 2014:* Segment revenue in the second quarter of fiscal 2015 included \$316 million in Tactical Communications, a decrease of 1 percent from \$320 million in the second quarter of fiscal 2014; and \$116 million in Public Safety and Professional Communications, a decrease of 14 percent from \$135 million in the second quarter of fiscal 2014. The decrease in Tactical Communications revenue in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was due to lower revenue from Department of Defense ( DoD ) customers, partially offset by higher revenue in international markets. The decrease in Public Safety and Professional Communications revenue in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to continued market weakness.

The decreases in segment gross margin and gross margin percentage in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 were primarily due to lower revenue, a less favorable mix of Tactical Communications revenue and execution issues on Public Safety and Professional Communications programs, partially offset by strong program performance on Tactical Communications programs, including the retirement of certain risks on a large, international program. The decrease in segment ESA expenses in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to operational excellence improvements, partially offset by higher spending on Tactical Communications research and development. The decreases in segment operating income and operating income as a percentage of revenue ( operating margin percentage ) in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 reflected the items discussed above regarding this segment.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* Segment revenue in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 decreased in both Tactical Communications and Public Safety and Professional Communications due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2015 and 2014.

The decreases in segment gross margin and gross margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 were due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2015 and 2014. The decrease in segment ESA expenses in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to an accrual in the first quarter of 2014 for legal matters related to a Public Safety and Professional Communications program and operational excellence improvements, partially offset by higher spending on Tactical Communications research and development. The increase in segment ESA percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to the impact of lower revenue. The decreases in segment operating income and operating margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 reflected the items discussed above regarding this segment for the first two quarters of fiscal 2015 and 2014.



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

|                                    | Quarter Ended      |                      |   | Two Quarters Ended |                      |                    |
|------------------------------------|--------------------|----------------------|---|--------------------|----------------------|--------------------|
|                                    | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec)<br>(Dollars in millions) | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec) |
| Revenue                            | \$ 454.3           | \$ 433.0             | 4.9 %                                       | \$ 915.0           | \$ 844.6             | 8.3 %              |
| Cost of product sales and services | (326.9)            | (316.5)              | 3.3 %                                       | (662.3)            | (613.4)              | 8.0 %              |
| Gross margin                       | 127.4              | 116.5                | 9.4 %                                       | 252.7              | 231.2                | 9.3 %              |
| % of revenue                       | 28.0 %             | 26.9 %               |   | 27.6 %             | 27.4 %               |                    |
| ESA expenses                       | (49.8)             | (50.0)               | (0.4)%                                      | (101.2)            | (100.7)              | 0.5 %              |
| % of revenue                       | 11.0 %             | 11.5 %               |   | 11.1 %             | 11.9 %               |                    |
| Segment operating income           | \$ 77.6            | \$ 66.5              | 16.7 %                                      | \$ 151.5           | \$ 130.5             | 16.1 %             |
| % of revenue                       | 17.1 %             | 15.4 %               |   | 16.6 %             | 15.5 %               |                    |

*Second Quarter 2015 Compared With Second Quarter 2014:* The increase in segment revenue in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to higher revenue from the F-35 program, classified customers and wireless products, partially offset by lower revenue from NASA's Space Network Ground Segment Sustainment program.

The increases in segment gross margin and gross margin percentage in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 were primarily due to higher revenue, continued strong program performance and a more favorable mix of revenue. Segment ESA expenses were essentially flat in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 as revenue increased, reflecting operational excellence improvements and the benefit of cost-reduction actions, resulting in a decrease in segment ESA percentage in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014. The increases in segment operating income and operating margin percentage in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 reflected the items discussed above regarding this segment.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* The increase in segment revenue in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2015 and 2014.

The increases in segment gross margin and gross margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 were primarily due to higher revenue, continued strong program performance and a slightly more favorable mix of revenue. Segment ESA expenses were essentially flat in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 as revenue increased, reflecting operational excellence improvements and the benefit of cost-reduction actions, resulting in a decrease in segment ESA percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014. The increases in segment operating income and operating margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 reflected the items discussed above regarding this segment for the first two quarters of fiscal 2015 and 2014.

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

|                                    | Quarter Ended      |                      |   | Two Quarters Ended |                      |                    |
|------------------------------------|--------------------|----------------------|---|--------------------|----------------------|--------------------|
|                                    | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec)<br>(Dollars in millions) | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec) |
| Revenue                            | \$ 339.6           | \$ 365.9             | (7.2)%                                      | \$ 665.3           | \$ 741.5             | (10.3)%            |
| Cost of product sales and services | (282.8)            | (290.7)              | (2.7)%                                      | (543.6)            | (588.8)              | (7.7)%             |
| Gross margin                       | 56.8               | 75.2                 | (24.5)%                                     | 121.7              | 152.7                | (20.3)%            |
| % of revenue                       | 16.7 %             | 20.6 %               |   | 18.3 %             | 20.6 %               |                    |
| ESA expenses                       | (28.3)             | (42.5)               | (33.4)%                                     | (70.1)             | (90.3)               | (22.4)%            |
| % of revenue                       | 8.3 %              | 11.6 %               |   | 10.5 %             | 12.2 %               |                    |
| Segment operating income           | \$ 28.5            | \$ 32.7              | (12.8)%                                     | \$ 51.6            | \$ 62.4              | (17.3)%            |
| % of revenue                       | 8.4 %              | 8.9 %                |   | 7.8 %              | 8.4 %                |                    |

*Second Quarter 2015 Compared With Second Quarter 2014:* The decrease in segment revenue in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to lower revenue from U.S. Government customers (primarily on the Navy/Marine Corps Intranet ( NMCI ) and U.S. Air Force Network Centric Solutions programs), partially offset by higher revenue from the U.S. Department of Veteran Affairs Wi-Fi program and from Harris CapRock Communications commercial customers. In connection with the wind-down of our work on the NMCI program, we have considered our potential opportunities for work on the successor program to the NMCI program (the Next Generation Enterprise Network program) and preliminarily concluded that the identifiable intangible asset related to our relationship with the NMCI customer is not currently impaired.

The decrease in segment operating income in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to lower revenue (including on the higher-margin NMCI program), partially offset by a net favorable impact of \$8 million in the second quarter of fiscal 2015 from adjustments to cost of product sales and services and ESA expenses. Cost of product sales and services increased by \$8 million, reflecting accruals for telecommunications-related taxes, of which approximately \$7 million represented an out-of-period adjustment for taxes in the period fiscal 2011 through fiscal 2014. ESA expenses decreased by \$16 million, reflecting the collection of a receivable that was fully reserved as a bad debt and the reversal of the associated reserve. The decreases in segment gross margin, gross margin percentage, ESA expenses and ESA percentage in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 were primarily due to the reasons noted above regarding this segment.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* The decrease in segment revenue in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2015 and 2014.

The decreases in segment gross margin and gross margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 were primarily due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2015 and 2014. The decreases in segment ESA expenses and ESA percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 were primarily due to lower general and administrative expenses from the reversal of a \$16 million bad debt reserve as described above regarding this segment for the second quarters of fiscal 2015 and 2014 and from operational excellence improvements and the benefit of cost-reduction actions. The decreases in segment operating income and operating margin percentage in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 reflected the items discussed above regarding this segment for the first two quarters of fiscal 2015 and 2014.

**Table of Contents****Unallocated Corporate Expense and Corporate Eliminations**

|  | Quarter Ended      |                      |   | Two Quarters Ended |                      |                    |
|--|--------------------|----------------------|---|--------------------|----------------------|--------------------|
|  | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec)<br>(Dollars in millions) | January 2,<br>2015 | December 27,<br>2013 | %<br>Inc/<br>(Dec) |

|                               |         |         |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|---------|---------|
| Unallocated corporate expense | \$ 16.8 | \$ 14.4 | 16.7 %  | \$ 30.7 | \$ 30.4 | 1.0 %   |
| Corporate eliminations        | 3.1     | 3.8     | (18.4)% | 5.3     | 7.1     | (25.4)% |

*Second Quarter 2015 Compared With Second Quarter 2014:* The increase in unallocated corporate expense in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to accruals for separate miscellaneous legal matters. The decrease in corporate eliminations in the second quarter of fiscal 2015 compared with the second quarter of fiscal 2014 was primarily due to lower intersegment eliminations for sales of products and services between our Integrated Network Solutions segment and our RF Communications segment.

*First Two Quarters 2015 Compared With First Two Quarters 2014:* The decrease in corporate eliminations in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was due to lower intersegment eliminations for sales of products and services between our Integrated Network Solutions segment and our RF Communications and Government Communications Systems segments.

**LIQUIDITY AND CAPITAL RESOURCES****Cash Flows**

|  | Two Quarters Ended |                      |
|--|--------------------|----------------------|
|  | January 2,<br>2015 | December 27,<br>2013 |
|  | (In millions)      |                      |
| Net cash provided by operating activities                    | \$ 222.2           | \$ 279.5             |
| Net cash used in investing activities                        | (72.1)             | (58.0)               |
| Net cash used in financing activities                        | (219.5)            | (206.9)              |
| Effect of exchange rate changes on cash and cash equivalents | (22.1)             | (1.2)                |
| Net increase (decrease) in cash and cash equivalents         | (91.5)             | 13.4                 |
| Cash and cash equivalents, beginning of year                 | 561.0              | 321.0                |
| Cash and cash equivalents, end of quarter                    | \$ 469.5           | \$ 334.4             |

**Cash and cash equivalents:** Our cash and cash equivalents decreased \$91.5 million to \$469.5 million at the end of the second quarter of fiscal 2015 from \$561.0 million at the end of fiscal 2014. The decrease was due to \$163.8 million used to repurchase shares of our common stock, \$99.5 million used to pay cash dividends, \$79.1 million used for additions of property, plant and equipment and \$22.1 million from the impact of exchange rate changes (primarily reflecting the strength of the U.S. Dollar relative to the Canadian Dollar), partially offset by \$222.2 million of net cash provided by operating activities, \$28.2 million of proceeds from exercises of employee stock options, \$15.6 million of net proceeds from borrowings and \$7.0 million of proceeds from our collection of the CIS Note received as part of the sale of our Cyber Integration Center. Our cash and cash equivalents increased \$13.4 million to \$334.4 million at the end of the second quarter of fiscal 2014 from \$321.0 million at the end of fiscal 2013. The increase was primarily due to \$279.5 million of net cash provided by operating activities, \$99.8 million of proceeds from exercises of employee stock options and \$27.0 million of net proceeds from the sale of our Cyber Integration Center, mostly offset by \$156.8 million used to repurchase shares of our common stock, \$90.4 million used to pay cash dividends, \$85.0 million used for additions of property, plant and equipment and \$59.5 million used for net repayments of borrowings.

Our financial position remained strong at January 2, 2015. We ended the second quarter of fiscal 2015 with cash and cash equivalents of \$469.5 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 January 2, 2015); and we do not have any material defined benefit pension plan obligations. Our \$469.5 million of cash and cash equivalents at January 2, 2015 included \$198 million held by our foreign subsidiaries, \$146 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.



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income taxes of \$15 million on the remaining \$52 million if we were to repatriate such funds to the U.S., but we have no current plans to repatriate such funds.

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Accumulated other comprehensive loss increased \$63 million during the first two quarters of fiscal 2015, primarily due to the impact of exchange rate changes, reflecting the strength of the U.S. Dollar relative to the British Pound, Norwegian Krone, Canadian Dollar and Brazilian Real.

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, 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 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, repurchases under our share repurchase program and potential acquisitions for the next 12 months and reasonably foreseeable future thereafter. Our total capital expenditures in fiscal 2015 are expected to be approximately \$200 million. 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 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 2015.

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 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 some 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:** The decrease in net cash provided by operating activities in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was primarily due to a larger decrease in accounts payable and accrued expenses and larger increases in accounts receivable and inventory.

**Net cash used in investing activities:** The increase in net cash used in investing activities in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was due to \$27.0 million of net proceeds received from the sale of our Cyber Integration Center in the first quarter of fiscal 2014, partially offset by \$7.0 million of proceeds in the first quarter of fiscal 2015 from our collection of the CIS Note received as part of the sale of our Cyber Integration Center and \$5.9 million less used for additions of property, plant and equipment in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014.

**Net cash used in financing activities:** The increase in net cash used in financing activities in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014 was due to \$71.6 million less of proceeds from exercises of employee stock options, \$9.1 million more used to pay cash dividends and \$7.0 million more of repurchases of our common stock, mostly offset by \$45.6 million less of repayments of borrowings and \$29.5 million more of proceeds from borrowings in the first two quarters of fiscal 2015 compared with the first two quarters of fiscal 2014.

**Common Stock Repurchases**

During the second quarter of fiscal 2015, we used \$50.0 million to repurchase 704,097 shares of our common stock under our 2013 Repurchase Program (as defined below) at an average price per share of \$71.01, including commissions. During the second quarter of fiscal 2014, we used \$50.0 million to repurchase 786,558 shares of our common stock under our 2013 Repurchase Program and 2011 Repurchase Program (as defined below) at an average price per share of \$63.57, including commissions. During the first two quarters of fiscal 2015, we used \$150.0 million to repurchase 2,136,362 shares of our common stock under our 2013 Repurchase Program at an average price per share of \$70.21, including commissions. During the first two quarters of fiscal 2014, we used \$150.0 million to repurchase 2,532,680 shares of our common stock under our 2013 Repurchase Program and 2011 Repurchase Program at an average price per share of \$59.23, including commissions. In the second quarter of fiscal 2015 and second quarter of fiscal 2014, \$2.1 million and \$0.1 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 two quarters of fiscal 2015 and first two quarters of fiscal 2014, \$13.8 million and \$6.8 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.



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On August 23, 2013, our Board of Directors approved our 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 January 2, 2015, we had a remaining, unused authorization of approximately \$684 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 second quarter of fiscal 2015 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**

On August 23, 2014, our Board of Directors increased the quarterly cash dividend rate on our common stock from \$.42 per share to \$.47 per share, for an annualized cash dividend rate of \$1.88 per share, which was our thirteenth consecutive annual increase in our quarterly cash dividend rate. Our annualized cash dividend rate was \$1.68 per share in fiscal 2014. There can be no assurances that our 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 \$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 2014 Form 10-K.

We were in compliance with the covenants in the 2012 Credit Agreement at January 2, 2015, 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 January 2, 2015, we had no borrowings outstanding under the 2012 Credit Agreement, but we had \$50 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 January 2, 2015 and June 27, 2014 was \$73.9 million and \$58.3 million, respectively, and primarily consisted of commercial paper. Our commercial paper program was supported at January 2, 2015 and June 27, 2014 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 depositary shares and warrants to purchase debt securities, preferred stock or common stock.

In connection with the definitive agreement we entered into subsequent to the end of the second quarter of fiscal 2015 to acquire Exelis, we secured \$3.4 billion of fully committed bridge financing for the acquisition and expect to put in place permanent financing in the form of term loans and unsecured bonds prior to closing. See *Note O Subsequent Event* in the Notes for further information. The significant additional indebtedness we will incur in connection with the acquisition is expected to result in a downgrade of our debt ratings. There are no assurances that our debt ratings will not be downgraded further 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 2014 Form 10-K. 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.



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### **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 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.

As of January 2, 2015, we were not participating in any material transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we did not have any material retained or contingent interest in assets as described above. As of January 2, 2015, 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.

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 2014 Form 10-K include our contractual obligations and commercial commitments. During the first two quarters of fiscal 2015, 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 2014 Form 10-K.

In connection with the definitive agreement we entered into subsequent to the end of the second quarter of fiscal 2015 to acquire Exelis, we have a contractual obligation to pay Exelis shareholders \$23.75 per share, or an approximately \$4.75 billion enterprise value, based on the closing price of our common stock as of February 5, 2015. The \$23.75 per share price Exelis shareholders will receive will consist of \$16.625 in cash, without interest, and 0.1025 of a share of our common stock for each share of Exelis common stock. See *Note O Subsequent Event* in the Notes for further information.

### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes are prepared in accordance with U.S. GAAP. 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 2014 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 2014 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. The majority of the revenue in our Government Communications Systems segment (and to a certain extent, revenue in our Integrated Network Solutions and RF Communications segments) 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.

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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.

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

|   | Quarter Ended         |                      | Two Quarters Ended |                      |
|---|-----------------------|----------------------|--------------------|----------------------|
|   | January 2,<br>2015    | December 27,<br>2013 | January 2,<br>2015 | December 27,<br>2013 |
|   | (Dollars in millions) |                      |                    |                      |
| Favorable adjustments                   | \$ 31.5               | \$ 19.5              | \$ 63.8            | \$ 39.5              |
| Unfavorable adjustments                 | (15.2)                | (11.3)               | (25.4)             | (19.0)               |
| <b>Net operating income adjustments</b> | <b>\$ 16.3</b>        | <b>\$ 8.2</b>        | <b>\$ 38.4</b>     | <b>\$ 20.5</b>       |

The increase in impacts to operating income due to estimate at completion adjustments in the second quarter and first two quarters of fiscal 2015 compared with the second quarter and first two quarters of fiscal 2014 reflected overall strong program execution, including retirement of certain risks on a large, international program in our RF Communications segment and on certain programs in our Government Communications Systems segment. There were no individual impacts to operating income due to estimate at completion adjustments in the second quarter and first two quarters of fiscal 2015 or 2014 that were material to our results of operations on a consolidated or segment basis for such periods.

We also recognize revenue from arrangements requiring the delivery or performance of multiple deliverables or elements under a bundled sale. In these arrangements, judgment is required to determine the appropriate accounting, including whether the individual deliverables represent separate units of accounting for revenue recognition purposes, and the timing of revenue recognition for each deliverable. If we determine that individual deliverables represent separate units of accounting, we recognize the revenue associated with each unit of accounting separately, and contract revenue is allocated among the separate units of accounting at the inception of the arrangement based on relative selling price. If options or change orders materially change the scope of work or price of the contract subsequent to inception, we reevaluate and adjust our prior conclusions regarding units of accounting and allocation of contract revenue as necessary. The allocation of selling price among the separate units of accounting may impact the timing of revenue recognition, but will not change the total revenue recognized on the arrangement. We establish the selling price used for each deliverable based on the vendor-specific objective evidence ( VSOE ) of selling price, or third-party evidence ( TPE ) of selling price if VSOE of selling price is not available, or best estimate of selling price ( BESP ) if neither VSOE of selling price nor TPE of selling price is available. In determining VSOE of selling price, a substantial majority of the recent standalone sales of the deliverable must be priced within a relatively narrow range. In determining TPE of selling price, we evaluate competitor prices for similar deliverables when sold separately. Generally, comparable pricing of our products to those of our competitors with similar functionality cannot be obtained. In determining BESP, we consider both market data and entity-specific factors, including market conditions, the geographies in which our products are sold, our competitive position and strategy, and our profit objectives.





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**Impact of Recently Issued Accounting Standards**

Accounting standards that have been recently issued but not yet effective for us are described in *Note A Significant Accounting Policies and Recent Accounting Standards* in the Notes, which describes the potential impact that these standards are expected to have on our financial position, results of operations and 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 to be 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; potential acquisitions or divestitures; 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, will, intends, plans, estimates, anticipates, projects and similar words or expressions. Do 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 these relationships, a reduction in U.S. Government funding or a change in U.S. Government spending 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.

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The continued effects of the general weakness in the global economy and the U.S. Government's budget deficits and national debt and sequestration 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.

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.

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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 adversely affect 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 2014 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 2014 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 January 2, 2015 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 L - Derivative Instruments and Hedging Activities* in the Notes for additional information.

**Interest Rates:** As of January 2, 2015, 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 January 2, 2015 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).

As of January 2, 2015, 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

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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 second quarter of fiscal 2015, 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 upon 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 second quarter of fiscal 2015 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. In the second quarter of fiscal 2015, we upgraded our Enterprise Resource Planning ( ERP ) system in our RF Communications segment. The upgrade was part of ongoing process and systems improvements and was not in response to an identified internal control deficiency. Other than changes related to the upgrade, there have been no changes in our internal control over financial reporting that occurred during the second quarter of fiscal 2015 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 January 2, 2015 are reserved against or would not have a material adverse effect on our financial condition, results of operations or cash flows.

As discussed in *Note B – Discontinued Operations* in the Notes, in connection with our sale of Broadcast Communications, we currently are in arbitration with the Buyer regarding a possible additional amount for the post-closing working capital adjustment to the purchase price. In such arbitration, the current range of possible outcomes is no additional adjustment to the purchase price, based on our calculation of post-closing working capital, on one hand, to an additional downward adjustment of \$81 million to the purchase price, based on the Buyer's claims in its calculation of post-closing working capital. We are not able to determine the likely outcome of the arbitration, but we believe the Buyer's claims in its calculation of post-closing working capital are without merit and its asserted additional downward adjustment to the purchase price is significantly overstated, and we intend to defend against the Buyer's claims and asserted additional downward adjustment to the purchase price vigorously.

*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).

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### **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 2014 Form 10-K. We do not believe that there have been any material changes to the risk factors previously disclosed in our Fiscal 2014 Form 10-K. We may disclose changes to such risk factors or disclose additional risk 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.

In addition to the risk factors previously disclosed in our Fiscal 2014 Form 10-K, the following are risks related to our pending acquisition of Exelis, which is discussed in *Note O Subsequent Event* in the Notes:

The closing of the acquisition is subject to closing conditions, including regulatory and Exelis shareholder approval. If the closing conditions are not satisfied or waived, either timely or at all, the acquisition will be delayed or will not be completed, which could cause us not to realize some or all of the anticipated benefits of the acquisition. The market price of our common stock may reflect an assumption that the pending acquisition will occur and on a timely basis, and the failure to do so may result in a decline in the market price of our common stock.

Combining the two companies may prove to be more difficult, costly and time consuming than expected, which could cause us not to realize some or all of the anticipated benefits and cost savings from the acquisition.

In connection with the acquisition, we will incur significant additional indebtedness and will assume certain of Exelis' outstanding indebtedness, which could adversely affect us, including by lowering our credit ratings, increasing our interest expense and decreasing our business flexibility, particularly if we are not able to realize some or all of the anticipated benefits and cost savings from the acquisition.

The acquisition will involve substantial non-recurring costs, including transaction costs, regulatory costs and integration costs, such as facilities, systems and employment-related costs, and we may incur additional unanticipated costs which may be significant. Although we expect the elimination of duplicative costs and other cost synergies from operational and functional efficiencies following integration of the two companies to exceed integration costs over time, we may not be able to achieve this result as quickly as anticipated or at all, particularly if we are not able to realize some or all of the anticipated benefits and cost savings from the acquisition.

The acquisition may not be as accretive to our earnings as we expect, either as quickly or at all, and actually may be dilutive to our earnings, particularly if we are not able to realize some or all of the anticipated benefits and cost savings from the acquisition.

Sales of our common stock by our shareholders, including shareholders of Exelis who receive shares of our common stock as part of the acquisition, may result in a decline in the market price of our common stock.

Lawsuits may be filed challenging the acquisition, and an adverse ruling in such lawsuits may cause the acquisition to be delayed or not to be completed, which could cause us not to realize some or all of the anticipated benefits of the acquisition.

Uncertainties associated with the acquisition may adversely affect our ability and Exelis' ability to attract and retain management and other key employees during the pendency of the acquisition and the integration period, which could adversely affect our business and operations and Exelis' business and operations, which could cause us not to realize some or all of the anticipated benefits of the

acquisition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

### Issuer Purchases of Equity Securities

During the second quarter of fiscal 2015, we repurchased 704,097 shares of our common stock under our 2013 Repurchase Program at an average price per share of \$70.99, excluding commissions. During the second quarter of fiscal 2014, we repurchased 786,558 shares of our common stock under our 2013 Repurchase Program and 2011 Repurchase Program at an average price per share of \$63.55, 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 second quarter of fiscal 2015:

| 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) |
|--|----------------------------------|------------------------------|--|--|
| Month No. 1<br>(September 27, 2014-October 24, 2014) |                                  |                              |  |  |
| Repurchase Programs (1)                              |                                  |                              |  | \$ 733,530,015   |
| Employee Transactions                                |                                  |                              |  |  |
| Month No. 2<br>(October 25, 2014-November 28, 2014)  |                                  |                              |  |  |
| Repurchase Programs (1)                              | 704,097                          | \$ 70.99                     | 704,097  | \$ 683,544,295   |
| Employee Transactions (2)                            | 350                              | \$ 70.47                     |  |  |
| Month No. 3<br>(November 29, 2014-January 2, 2015)   |                                  |                              |  |  |
| Repurchase Programs (1)                              |                                  |                              |  | \$ 683,544,295   |
| Employee Transactions                                |                                  |                              |  |  |
| <b>Total</b>   | <b>704,447</b>                   | <b>\$ 70.99</b>              | <b>704,097</b>   | <b>\$ 683,544,295</b>  |

\* Periods represent our fiscal months.

- (1) 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 second quarter of fiscal 2014 used the remaining authorization under our 2011 Repurchase Program. As of January 2, 2015, \$683,544,295 (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 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. 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 restricted shares returned to us upon employment termination of an employee.



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*Sales of Unregistered Equity Securities*

During the second quarter of fiscal 2015, 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 December 5, 2014, incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on December 8, 2014. (Commission File Number 1-3863)
- (10) \*(a) Amendment Number Eight to the Harris Corporation Retirement Plan (Amended and Restated Effective January 1, 2011) dated December 19, 2014.
- \*(b) Amendment Number One to the Harris Corporation 2005 Supplemental Executive Retirement Plan (Amended and Restated Effective November 28, 2011) dated December 19, 2014.
- (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.

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**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: February 10, 2015

By: /s/ Miguel A. Lopez  
Miguel A. Lopez  
Senior Vice President and Chief Financial Officer  
(principal financial officer and duly authorized officer)

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**EXHIBIT INDEX**

**Exhibit No.**

**Under Reg. S-K,**

| <b>Item 601</b> | <b>Description</b>   |
|-----------------|--|
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| (12)            | Computation of Ratio of Earnings to Fixed Charges.   |
| (15)            | Letter Regarding Unaudited Interim Financial Information.  |
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