

HARRIS CORP /DE/
Form 10-Q
February 01, 2012
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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 December 30, 2011

or

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

For the transition period from _____ to _____

Commission File Number: 1-3863

HARRIS CORPORATION

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	34-0276860 (I.R.S. Employer Identification No.)
1025 West NASA Boulevard Melbourne, Florida (Address of principal executive offices)	32919 (Zip Code)
(321) 727-9100	

(Registrant's telephone number, including area code)

No changes

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x 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). x 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.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>

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 January 27, 2012 was 113,872,595 shares.

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HARRIS CORPORATION

FORM 10-Q

For the Quarter Ended December 30, 2011

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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	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
	(In millions, except per share amounts)			
Revenue from product sales and services	\$ 1,446.4	\$ 1,438.5	\$ 2,906.7	\$ 2,843.9
Cost of product sales and services	(933.9)	(940.5)	(1,900.6)	(1,821.6)
Engineering, selling and administrative expenses	(286.4)	(255.2)	(577.3)	(510.4)
Non-operating income (loss)	2.9	(0.9)	3.6	(1.3)
Interest income	0.2	0.4	1.1	1.0
Interest expense	(28.2)	(20.4)	(56.2)	(38.2)
Income before income taxes	201.0	221.9	377.3	473.4
Income taxes	(68.7)	(70.8)	(123.9)	(158.4)
Net income	132.3	151.1	253.4	315.0
Noncontrolling interests, net of income taxes	0.8		1.3	
Net income attributable to Harris Corporation	\$ 133.1	\$ 151.1	\$ 254.7	\$ 315.0
Net income per common share attributable to Harris Corporation common shareholders				
Basic	\$ 1.17	\$ 1.19	\$ 2.17	\$ 2.46
Diluted	\$ 1.16	\$ 1.18	\$ 2.16	\$ 2.44
Cash dividends paid per common share	\$ 0.28	\$ 0.25	\$ 0.56	\$ 0.50
Basic weighted average common shares outstanding	112.4	125.9	116.1	126.3
Diluted weighted average common shares outstanding	112.8	126.8	116.5	127.3

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

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HARRIS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

	December 30, 2011	July 1, 2011
	(In millions, except shares)	
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 387.0	\$ 366.9
Receivables	858.1	836.5
Inventories	701.3	720.8
Income taxes receivable	53.5	57.3
Current deferred income taxes	154.4	171.0
Other current assets	73.5	64.3
Total current assets	2,227.8	2,216.8
<i>Non-current Assets</i>		
Property, plant and equipment	894.4	872.8
Goodwill	2,358.9	2,381.4
Intangible assets	472.1	502.4
Non-current deferred income taxes	36.3	5.7
Other non-current assets	182.7	193.7
Total non-current assets	3,944.4	3,956.0
	\$ 6,172.2	\$ 6,172.8
Liabilities and Equity		
<i>Current Liabilities</i>		
Short-term debt	\$ 544.9	\$ 180.0
Accounts payable	348.1	450.8
Compensation and benefits	206.6	266.2
Other accrued items	279.5	295.8
Advance payments and unearned income	275.8	232.8
Current deferred income taxes	0.9	
Current portion of long-term debt	5.3	4.9
Total current liabilities	1,661.1	1,430.5
<i>Non-current Liabilities</i>		
Non-current deferred income taxes	20.9	
Long-term debt	1,883.2	1,887.2
Long-term contract liability	115.9	120.9
Other long-term liabilities	238.5	222.2
Total non-current liabilities	2,258.5	2,230.3
<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 112,630,523 shares at December 30, 2011 and 123,118,804 shares at July 1, 2011	112.6	123.1

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Other capital	405.9	471.2
Retained earnings	1,754.2	1,889.0
Accumulated other comprehensive income (loss)	(28.9)	18.7
Total shareholders' equity	2,243.8	2,502.0
Noncontrolling interests	8.8	10.0
Total equity	2,252.6	2,512.0
	\$ 6,172.2	\$ 6,172.8

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	
	December 30, 2011	December 31, 2010
	(In millions)	
Operating Activities		
Net income	\$ 253.4	\$ 315.0
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129.3	96.2
Share-based compensation	16.6	26.1
Non-current deferred income taxes	(3.4)	9.8
(Increase) decrease in:		
Accounts and notes receivable	(21.7)	62.1
Inventories	21.5	(1.5)
Increase (decrease) in:		
Accounts payable and accrued expenses	(169.4)	(71.8)
Advance payments and unearned income	43.0	12.9
Income taxes	7.3	(46.8)
Other	1.4	(12.7)
Net cash provided by operating activities	278.0	389.3
Investing Activities		
Net cash paid for acquired businesses	(14.0)	(518.0)
Cash paid for cost-method investment		(10.0)
Additions of property, plant and equipment	(111.3)	(101.0)
Additions of capitalized software	(11.2)	(7.2)
Net cash used in investing activities	(136.5)	(636.2)
Financing Activities		
Proceeds from borrowings	364.9	689.0
Repayments of borrowings	(3.7)	(0.3)
Proceeds from exercise of employee stock options	6.2	10.5
Repurchases of common stock	(423.2)	(105.7)
Cash dividends	(64.5)	(64.0)
Net cash provided by (used in) financing activities	(120.3)	529.5
Effect of exchange rate changes on cash and cash equivalents	(1.1)	3.0
Net increase in cash and cash equivalents	20.1	285.6
Cash and cash equivalents, beginning of year	366.9	455.2
Cash and cash equivalents, end of quarter	\$ 387.0	\$ 740.8

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

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****December 30, 2011****Note A Significant Accounting Policies and Recent Accounting Standards***Basis of Presentation*

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

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. Actual results could differ from those estimates and assumptions.

Accounting Standards Issued But Not Yet Effective

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

In June 2011, the FASB issued an accounting standards update that requires entities to present components of net income, components of other comprehensive income (OCI) and total comprehensive income in one continuous statement or two separate but consecutive statements. Entities will no longer be allowed to present OCI in the statement of equity. Additionally, this update requires entities to present on the face of the financial statements reclassification adjustments for each component of accumulated other comprehensive income in both net income and OCI. This update is to be applied retrospectively and is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2011, which for us is our fiscal 2013. In December 2011, however, the FASB approved a deferral of the effective date of the update's requirement to present on the face of the financial statements reclassification adjustments for each component of accumulated other comprehensive income in both net income and OCI; and during calendar 2012, the FASB plans to reconsider this requirement. The adoption of this update will not impact our financial position, results of operations or cash flows.

In September 2011, the FASB issued an accounting standards update that simplifies how entities test goodwill for impairment. This update gives entities the option to assess qualitative factors first, to determine whether it is necessary to perform the two-step quantitative goodwill impairment test for their reporting units. Under this update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not (a likelihood of more

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than 50 percent) that its fair value is less than its carrying amount. Additionally, this update includes examples of events and circumstances that an entity should consider in conducting the qualitative assessment. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, which for us is our fiscal 2013. Early adoption is permitted. The adoption of this update will not impact our financial position, results of operations or cash flows.

Reclassifications

Certain prior-year amounts have been reclassified in the accompanying condensed consolidated financial statements to conform with current-year classifications.

Note B Stock Options and Other Share-Based Compensation

As of December 30, 2011, we had two shareholder-approved employee stock incentive plans (SIPs) under which options or other share-based compensation was outstanding, and we had the following types of share-based awards outstanding under our SIPs: stock options, performance share awards, performance share unit awards, restricted stock awards and restricted stock unit awards. We believe that such awards more closely align the interests of employees with those of shareholders. Certain share-based awards provide for accelerated vesting if there is a change in control (as defined under our SIPs). The compensation cost related to our share-based awards that was charged against income for the quarter and two quarters ended December 30, 2011 was \$7.3 million and \$16.6 million, respectively. The compensation cost related to our share-based awards that was charged against income for the quarter and two quarters ended December 31, 2010 was \$10.1 million and \$26.1 million, respectively.

Grants to employees under our SIPs during the quarter ended December 30, 2011 consisted of 372,752 stock options, 139,075 performance share unit awards and 62,650 restricted stock unit awards. Grants to employees under our SIPs during the two quarters ended December 30, 2011 consisted of 1,825,502 stock options, 271,275 performance share unit awards, 360,550 restricted stock unit awards and 10,400 restricted stock awards. The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton option-pricing model which used the following assumptions: expected volatility of 34.63 percent; expected dividend yield of 2.24 percent; and expected life in years of 5.10.

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

Comprehensive income for the quarter and two quarters ended December 30, 2011 and December 31, 2010 was comprised of the following:

	Quarter Ended		Two Quarters Ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
	(In millions)			
Net income	\$ 132.3	\$ 151.1	\$ 253.4	\$ 315.0
Other comprehensive income (loss):				
Foreign currency translation	(11.6)	5.0	(51.0)	15.5
Net unrealized gain (loss) on hedging derivatives, net of income taxes	0.2	0.3	0.6	(0.1)
Net unrealized gain (loss) on securities available-for-sale, net of income taxes	(0.1)	1.0	0.3	0.1
Amortization of loss on treasury lock, net of income taxes	0.2	0.1	0.3	0.3
Recognition of pension actuarial losses in net income, net of income taxes	1.0	1.4	2.2	1.5
Total comprehensive income	122.0	158.9	205.8	332.3
Comprehensive loss attributable to noncontrolling interests	0.8		1.3	
Total comprehensive income attributable to Harris Corporation	\$ 122.8	\$ 158.9	\$ 207.1	\$ 332.3

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

	December 30, 2011	July 1, 2011
	(In millions)	
Foreign currency translation	\$ (0.2)	\$ 50.8
Net unrealized gain (loss) on hedging derivatives, net of income taxes	0.5	(0.1)
Net unrealized gain on securities available-for-sale, net of income taxes	1.4	1.1
Unamortized loss on treasury lock, net of income taxes	(3.2)	(3.5)
Unrecognized pension obligations, net of income taxes	(27.4)	(29.6)
	\$ (28.9)	\$ 18.7

Note D Receivables

Receivables are summarized below:

	December 30, 2011	July 1, 2011
	(In millions)	
Accounts receivable	\$ 766.1	\$ 703.4
Unbilled costs on cost-plus contracts	93.4	138.5
Notes receivable due within one year, net	8.9	6.5
	868.4	848.4
Less allowances for collection losses	(10.3)	(11.9)
	\$ 858.1	\$ 836.5

Note E Inventories

Inventories are summarized below:

	December 30, 2011	July 1, 2011
	(In millions)	
Unbilled costs and accrued earnings on fixed-price contracts	\$ 369.7	\$ 381.0
Finished products	115.2	137.2
Work in process	60.6	60.1
Raw materials and supplies	155.8	142.5
	\$ 701.3	\$ 720.8

Unbilled costs and accrued earnings on fixed-price contracts were net of progress payments of \$108.3 million at December 30, 2011 and \$85.1 million at July 1, 2011.

Note F Property, Plant and Equipment

Property, plant and equipment are summarized below:

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	December 30, 2011	July 1, 2011
	(In millions)	
Land	\$ 17.6	\$ 17.6
Software capitalized for internal use	120.2	121.0
Buildings	497.7	490.4
Machinery and equipment	1,167.3	1,087.4
	1,802.8	1,716.4
Less allowances for depreciation and amortization	(908.4)	(843.6)
	\$ 894.4	\$ 872.8

Depreciation and amortization expense related to property, plant and equipment for the quarter and two quarters ended December 30, 2011 was \$43.8 million and \$83.2 million, respectively. Depreciation and amortization expense related to property, plant and equipment for the quarter and two quarters ended December 31, 2010 was \$30.7 million and \$60.6 million, respectively.

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

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

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

We had short-term debt at December 30, 2011, September 30, 2011 and July 1, 2011 of \$544.9 million, \$561.0 million and \$180.0 million, respectively, which consisted primarily of commercial paper outstanding under our commercial paper program that was supported by our \$750 million senior unsecured revolving credit facility under the 2008 Credit Agreement (as defined in the "Capital Structure and Resources" discussion in Part I. Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Report). Our short-term debt at July 1, 2011 was primarily due to commercial paper issued to fund a portion of the purchase price for our acquisitions of the Global Connectivity Services business of the Schlumberger group ("Schlumberger GCS") and Carefx Corporation ("Carefx") during the fourth quarter of fiscal 2011. The higher amount of short-term debt at September 30, 2011 and December 30, 2011 compared with July 1, 2011 was primarily due to commercial paper issued to fund repurchases we made under our new share repurchase program during the first quarter of fiscal 2012.

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

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

	(In millions)
Balance at July 1, 2011	\$ 52.8
Warranty provision for sales made during the two quarters ended December 30, 2011	10.0
Settlements made during the two quarters ended December 30, 2011	(9.6)
Other adjustments to warranty liability, including those for foreign currency translation, during the two quarters ended December 30, 2011	(1.0)
Balance at December 30, 2011	\$ 52.2

Note I Net Income Per Share

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

	Quarter Ended		Two Quarters Ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
	(In millions, except per share amounts)			
Net income	\$ 133.1	\$ 151.1	\$ 254.7	\$ 315.0
Adjustments for participating securities outstanding	(1.9)	(1.9)	(3.3)	(3.9)
Net income used in basic and diluted common share calculations (A)	\$ 131.2	\$ 149.2	\$ 251.4	\$ 311.1
Basic weighted average common shares outstanding (B)	112.4	125.9	116.1	126.3
Impact of dilutive stock options	0.4	0.9	0.4	1.0
Diluted weighted average common shares outstanding (C)	112.8	126.8	116.5	127.3
Net income per basic common share (A)/(B)	\$ 1.17	\$ 1.19	\$ 2.17	\$ 2.46
Net income per diluted common share (A)/(C)	\$ 1.16	\$ 1.18	\$ 2.16	\$ 2.44

Potential dilutive common shares consist of employee stock options. Employee stock options to purchase approximately 5,227,907 and 3,160,928 shares of our common stock were outstanding at December 30, 2011 and December 31, 2010, respectively, but were not included as dilutive stock options in the computations of net income per diluted common share because the effect would have been antidilutive as the options exercise prices exceeded the average market price of our common stock.

Note J Non-Operating Income (Loss)

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

Quarter Ended	Two Quarters Ended
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	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
	(In millions)			
Impairment of investments	\$	\$ (0.7)	\$	\$ (0.7)
Equity income			0.4	
Net royalty income (expense)	2.9	(0.2)	3.1	(0.6)
Other			0.1	
	\$ 2.9	\$ (0.9)	\$ 3.6	\$ (1.3)

Note K Income Taxes

Our effective tax rate (income taxes as a percentage of income before income taxes) was 34.2 percent in the second quarter of fiscal 2012 compared with 31.9 percent in the second quarter of fiscal 2011. In the second quarter of fiscal 2011, our effective tax rate benefited from a \$5.9 million tax benefit associated with legislative action during the second quarter of fiscal 2011 that restored the U.S. Federal income tax credit for research and development expenses.

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Our effective tax rate was 32.8 percent in the first two quarters of fiscal 2012 compared with 33.5 percent in the first two quarters of fiscal 2011. In the first two quarters of fiscal 2012, our effective tax rate benefited from a reduction in state taxes due to changes in certain state tax laws and a reduction in estimated tax liabilities. In the first two quarters of fiscal 2011, the major discrete item was the same as that noted above regarding the second quarter of fiscal 2011.

Note L Fair Value Measurements

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

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

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

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

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

	Level 1	Level 2	Level 3	Total
	(In millions)			
Assets				
Marketable equity securities (1)	\$ 5.9	\$	\$	\$ 5.9
Deferred compensation plan investments: (2)				
Money market fund	31.0			31.0
Stock fund	38.6			38.6
Equity security	14.7			14.7
Foreign currency forward contracts (3)		4.3		4.3
Liabilities				
Deferred compensation plans (4)	87.0			87.0
Foreign currency forward contracts (5)		3.4		3.4

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

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for contracts with similar maturities.

Assets and liabilities that were measured at fair value on a nonrecurring basis were not material during the quarter and two quarters ended December 30, 2011.

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

	December 30, 2011		July 1, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(In millions)				
Financial Liabilities				
Long-term debt (including current portion) (1)	\$ 1,888.5	\$ 2,177.0	\$ 1,892.1	\$ 2,068.4

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

Note M Derivative Instruments and Hedging Activities

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

At December 30, 2011, we had open foreign currency forward contracts with a notional amount of \$95.0 million, of which \$47.7 million were classified as fair value hedges and \$47.3 million were classified as cash flow hedges. This compares with open foreign currency forward contracts with a notional amount of \$83.9 million at July 1, 2011, of which \$30.2 million were classified as fair value hedges and \$53.7 million were classified as cash flow hedges. At December 30, 2011, contract expiration dates ranged from less than 1 month to 27 months with a weighted average contract life of 4 months.

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 December 30, 2011, we had outstanding foreign currency forward contracts denominated in the Euro, Canadian Dollar, Singapore Dollar, British Pound, Brazilian Real and Norwegian Krone to hedge certain balance sheet items. The net gains or losses on foreign currency forward contracts designated as fair value hedges were not material for the quarter and two quarters ended December 30, 2011 or for the quarter and two quarters ended December 31, 2010. In addition, no amounts were recognized in earnings in the quarter and two quarters ended December 30, 2011 or in the quarter and two quarters ended December 31, 2010 related to hedged firm commitments that no longer qualify as fair value hedges.

Cash Flow Hedges

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

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

impact of our derivatives is included in the same category in the accompanying Condensed Consolidated Statement of Cash Flows (Unaudited) as the cash flows of the item being hedged.

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The net gains or losses from cash flow hedges recognized in earnings or recorded in other comprehensive income, including gains or losses related to hedge ineffectiveness, were not material in the quarter and two quarters ended December 30, 2011 or in the quarter and two quarters ended December 31, 2010. We do not expect the net gains or losses recognized in the Accumulated other comprehensive income (loss) line item in the accompanying Condensed Consolidated Balance Sheet (Unaudited) as of December 30, 2011 that will be reclassified to earnings from other comprehensive income within the next 12 months to be material.

Credit Risk

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

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

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

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

Total assets by business segment are summarized below:

	December 30, 2011	July 1, 2011
	(In millions)	
Total Assets		
RF Communications	\$ 1,343.1	\$ 1,378.7
Integrated Network Solutions	3,086.5	3,068.7
Government Communications Systems	945.3	956.4
Corporate	797.3	769.0
	\$ 6,172.2	\$ 6,172.8

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

	Quarter Ended		Two Quarters Ended	
	December 30, 2011	December 31, 2010	December 30, 2011	December 31, 2010
(In millions)				
Revenue				
RF Communications	\$ 525.7	\$ 544.7	\$ 1,022.8	\$ 1,111.2
Integrated Network Solutions	526.4	495.9	1,080.6	937.5
Government Communications Systems	422.4	421.7	866.1	845.8
Corporate eliminations	(28.1)	(23.8)	(62.8)	(50.6)
	\$ 1,446.4	\$ 1,438.5	\$ 2,906.7	\$ 2,843.9
Income Before Income Taxes				
<i>Segment Operating Income</i>				
RF Communications	\$ 172.4	\$ 189.3	\$ 326.4	\$ 417.8
Integrated Network Solutions (1)	15.6	20.5	24.8	47.1
Government Communications Systems	62.9	59.4	126.0	104.0
Unallocated corporate expense	(22.0)	(22.0)	(40.6)	(47.7)
Corporate eliminations	(2.8)	(4.4)	(7.8)	(9.3)
Non-operating income (loss) (2)	2.9	(0.9)	3.6	(1.3)
Net interest expense	(28.0)	(20.0)	(55.1)	(37.2)
	\$ 201.0	\$ 221.9	\$ 377.3	\$ 473.4

- (1) Operating income in our Integrated Network Solutions segment in the quarter ended December 30, 2011 included charges of \$9.7 million for integration and other costs associated with our acquisitions of CapRock Holdings, Inc. and its subsidiaries, including CapRock Communications, Inc. (collectively, CapRock) and Schlumberger GCS. Operating income in our Integrated Network Solutions segment in the two quarters ended December 30, 2011 included charges of \$19.3 million for integration and other costs associated with our acquisitions of CapRock, Schlumberger GCS and Carefx. Operating income in our Integrated Network Solutions segment in the quarter and two quarters ended December 31, 2010 included charges of \$4.2 million and \$6.2 million, respectively, for integration and other costs associated with our acquisition of CapRock. Additionally, operating income in our Integrated Network Solutions segment in the quarter and two quarters ended December 30, 2011 included \$8.2 million and \$23.9 million, respectively, of combined losses related to our cyber and healthcare solutions initiatives.
- (2) Non-operating income (loss) includes equity investment income (loss), royalties and related intellectual property expenses, gains and losses on sales of investments and securities available-for-sale, and impairments of investments and securities available-for-sale.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Harris Corporation

We have reviewed the condensed consolidated balance sheet of Harris Corporation as of December 30, 2011, and the related condensed consolidated statements of income for the quarter and two quarters ended December 30, 2011 and December 31, 2010, and the condensed consolidated statements of cash flows for the two quarters ended December 30, 2011 and December 31, 2010. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Harris Corporation as of July 1, 2011, and the related consolidated statements of income, cash flows, and comprehensive income and equity for the year then ended, not presented herein, and in our report dated August 29, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of July 1, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Certified Public Accountants

Boca Raton, Florida

February 1, 2012

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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 (MD&A) is intended to assist in an understanding of Harris. MD&A is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to, our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes 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 2011 Form 10-K. Except for the historical information contained herein, the discussions in MD&A contain forward-looking statements that involve risks and uncertainties. Our 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 MD&A under Forward-Looking Statements and Factors that May Affect Future Results.

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

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

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.

RESULTS OF OPERATIONS

Highlights

Operations results for the second quarter of fiscal 2012 include:

Revenue increased 0.5 percent to \$1,446.4 million in the second quarter of fiscal 2012 from \$1,438.5 million in the second quarter of fiscal 2011;

Net income decreased to \$133.1 million, or \$1.16 per diluted share, in the second quarter of fiscal 2012 from \$151.1 million, or \$1.18 per diluted share, in the second quarter of fiscal 2011;

Our RF Communications segment revenue decreased 3.5 percent to \$525.7 million and operating income decreased 8.9 percent to \$172.4 million in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011;

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Our Integrated Network Solutions segment revenue increased 6.2 percent to \$526.4 million and operating income decreased 23.9 percent to \$15.6 million in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011. Revenue in the second quarter of fiscal 2012 benefited from our acquisition of Schlumberger GCS in the fourth quarter of fiscal 2011, and operating income in the second quarter of fiscal 2012 was impacted by \$9.7 million of acquisition-related charges and a combined loss of \$8.2 million related to our cyber and healthcare solutions initiatives;

Our Government Communications Systems segment revenue increased 0.2 percent to \$422.4 million and operating income increased 5.9 percent to \$62.9 million in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011; and

Net cash provided by operating activities was \$278.0 million in the first two quarters of fiscal 2012 compared with \$389.3 million in the first two quarters of fiscal 2011, a decrease of 28.6 percent. Net cash provided by operating activities was \$199.3 million in the second quarter of fiscal 2012 compared with \$94.4 million in the second quarter of fiscal 2011, an increase of 111.1 percent.

Table of Contents**Consolidated Results of Operations****Revenue and Net Income**

	December 30, 2011	Quarter Ended December 31, 2010	% Inc/(Dec)	December 30, 2011	Two Quarters Ended December 31, 2010	% Inc/(Dec)
(Dollars in millions, except per share amounts)						
Revenue	\$ 1,446.4	\$ 1,438.5	0.5%	\$ 2,906.7	\$ 2,843.9	2.2%
Net income	\$ 133.1	\$ 151.1	(11.9)%	\$ 254.7	\$ 315.0	(19.1)%
% of revenue	9.2%	10.5%		8.8%	11.1%	
Net income per diluted common share	\$ 1.16	\$ 1.18	(1.7)%	\$ 2.16	\$ 2.44	(11.5)%

Second Quarter 2012 Compared With Second Quarter 2011: The increase in revenue in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011 was primarily due to higher revenue in our Integrated Network Solutions segment, which benefited from our acquisition of Schlumberger GCS in the fourth quarter of fiscal 2011, partially offset by lower revenue in our RF Communications segment. Revenue in our RF Communications segment in the second quarter of fiscal 2011 benefited from \$80 million in expedited shipments of tactical radios to equip mine resistant ambush protected vehicles (MRAPs).

The decrease in net income and net income as a percentage of revenue in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011 was primarily due to operating income in the second quarter of fiscal 2011 benefiting from expedited shipments of tactical radios by our RF Communications segment, as noted above. Additionally, operating income in our Integrated Network Solutions segment decreased, primarily due to integration and other costs associated with our acquisitions of CapRock and Schlumberger GCS and a combined loss of \$8.2 million related to our cyber and healthcare solutions initiatives. Also, interest expense increased in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011, primarily due to higher levels of borrowings to fund acquisitions of businesses in fiscal 2011 and repurchases under our new share repurchase program during the first quarter of fiscal 2012. These drivers of the decrease in net income and net income as a percentage of revenue were partially offset by stronger operating results in our Government Communications Systems segment, primarily driven by a more favorable product mix and outstanding cost performance on fixed-price programs. Moreover, the effect of these items on the decrease in net income per diluted common share in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011 was partially offset by the significant reduction in average common shares outstanding as a result of share repurchases during the first quarter of fiscal 2012.

First Two Quarters 2012 Compared With First Two Quarters 2011: The increase in revenue in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was primarily due to higher revenue in our Integrated Network Solutions segment, which benefited from our acquisitions of CapRock and Schlumberger GCS in fiscal 2011, partially offset by lower revenue in our RF Communications segment. Revenue in our RF Communications segment in the first two quarters of fiscal 2011 benefited significantly from expedited shipments of tactical radios to equip MRAPs.

The decrease in net income and net income as a percentage of revenue in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was primarily due to operating income in the first two quarters of fiscal 2011 benefiting from expedited shipments of tactical radios by our RF Communications segment, as noted above. Additionally, operating income in our Integrated Network Solutions segment decreased, primarily due to integration and other costs associated with our acquisitions of CapRock, Schlumberger GCS and Carefx and losses related to our cyber and healthcare solutions initiatives. Also, interest expense increased in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 for the same reasons as noted above regarding the second quarters of fiscal 2012 and 2011. These drivers of the decrease in net income and net income as a percentage of revenue were partially offset by stronger operating results in our Government Communications Systems segment, primarily driven by a more favorable product mix and excellent program performance. Moreover, the effect of these items on the decrease in net income per diluted common share in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was partially offset by the significant reduction in average common shares outstanding as a result of share repurchases during the first quarter of fiscal 2012.

See the Discussion of Business Segment Results of Operations, Interest Income and Expense and Common Stock Repurchases discussions below in this MD&A for further information.

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First Two Quarters 2012 Compared With First Two Quarters 2011: In the first two quarters of fiscal 2012, our effective tax rate benefited from a reduction in state taxes due to changes in certain state tax laws and a reduction in estimated tax liabilities. In the first two quarters of fiscal 2011, the major discrete item was the same as that noted above regarding the second quarter of fiscal 2011.

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

	December 30, 2011	Quarter Ended December 31, 2010	% Inc/(Dec)	December 30, 2011	Two Quarters Ended December 31, 2010	% Inc/(Dec)
	(Dollars in millions)					
Revenue	\$ 525.7	\$ 544.7	(3.5)%	\$ 1,022.8	\$ 1,111.2	(8.0)%
Segment operating income	172.4	189.3	(8.9)%	326.4	417.8	(21.9)%
% of revenue	32.8%	34.8%		31.9%	37.6%	

Second Quarter 2012 Compared With Second Quarter 2011: The decrease in RF Communications segment revenue in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011 was due to a decrease in Tactical Communications revenue, partially offset by an increase in Public Safety and Professional Communications revenue. Tactical Communications revenue in the second quarter of fiscal 2012 of \$391 million reflected a decline in Department of Defense revenue primarily as a result of revenue in the second quarter of fiscal 2011 benefiting from \$80 million in expedited shipments of tactical radios to equip MRAPs, partially offset by a significant increase in international revenue. Tactical Communications international revenue was driven by major deliveries to countries in Asia and Africa. Public Safety and Professional Communications revenue in the second quarter of fiscal 2012 was \$135 million, an increase of 14 percent compared with the second quarter of fiscal 2011.

The decrease in RF Communications segment operating income and operating income as a percentage of revenue in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011 was primarily due to operating income in the second quarter of fiscal 2011 benefiting from \$80 million in expedited shipments of tactical radios to equip MRAPs.

Orders in the second quarter of fiscal 2012 for our RF Communications segment totaled \$268 million, including \$183 million in Tactical Communications and \$85 million in Public Safety and Professional Communications. At the end of the second quarter of fiscal 2012, backlog was \$581 million in Tactical Communications and \$671 million in Public Safety and Professional Communications.

Orders in the second quarter of fiscal 2012 included \$70 million from a country in Africa for Falcon II[®] radios for the next phase of a multi-year modernization program, bringing orders to a total of \$257 million for this program that we believe has a potential value of \$400 million. Orders also included an \$11 million order from the Brazilian Ministry of Defence for Falcon II and Falcon III[®] radios in support of multi-year modernization programs, bringing orders to a total of \$29 million for these programs that we believe have a potential opportunity in excess of \$300 million over the next several years in this rapidly emerging market.

Following the close of the second quarter of fiscal 2012, we received a \$235 million order from the Australian Department of Defence for Falcon II and Falcon III radios for the second phase of the Battlespace Communications System (Land) project (JP2072). This was the second order under this multi-year modernization program that we believe is potentially worth \$500 million and brings orders to a total of \$347 million for this program.

First Two Quarters 2012 Compared With First Two Quarters 2011: The decrease in RF Communications segment revenue, operating income and operating income as a percentage of revenue in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was primarily for the same reasons as noted above regarding the second quarters of fiscal 2012 and 2011.

Integrated Network Solutions Segment

	December 30, 2011	Quarter Ended December 31, 2010	% Inc/(Dec)	December 30, 2011	Two Quarters Ended December 31, 2010	% Inc/(Dec)
	(Dollars in millions)					
Revenue	\$ 526.4	\$ 495.9	6.2%	\$ 1,080.6	\$ 937.5	15.3%
Segment operating income	15.6	20.5	(23.9)%	24.8	47.1	(47.3)%
% of revenue	3.0%	4.1%		2.3%	5.0%	

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Second Quarter 2012 Compared With Second Quarter 2011: The increase in Integrated Network Solutions segment revenue in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011 was primarily due to revenue from Schlumberger GCS, which we acquired in the fourth quarter of fiscal 2011, and higher revenue related to our healthcare solutions initiative. This increase in revenue was partially offset by lower IT services revenue.

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Government Communications Systems segment operating income and operating income as a percentage of revenue were higher in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011, primarily driven by a more favorable product mix and excellent program performance.

Unallocated Corporate Expense and Corporate Eliminations

	Quarter Ended			Two Quarters Ended		
	December 30, 2011	December 31, 2010	% Inc/(Dec)	December 30, 2011	December 31, 2010	% Inc/(Dec)
	(Dollars in millions)					
Unallocated corporate expense	\$ 22.0	\$ 22.0	%	\$ 40.6	\$ 47.7	(14.9)%
Corporate eliminations	2.8	4.4	(36.4)%	7.8	9.3	(16.1)%

Second Quarter 2012 Compared With Second Quarter 2011: Corporate eliminations decreased in the second quarter of fiscal 2012 compared with the second quarter of fiscal 2011, primarily due to lower intersegment activity between our Government Communications Systems and our RF Communications and Integrated Network Solutions segments.

First Two Quarters 2012 Compared With First Two Quarters 2011: The decrease in unallocated corporate expense in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was primarily due to higher compensation and benefit plan expense in the first two quarters of fiscal 2011. The decrease in corporate eliminations in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was for the same reason as noted above regarding the second quarters of fiscal 2012 and 2011.

LIQUIDITY AND CAPITAL RESOURCES**Cash Flows**

	Two Quarters Ended	
	December 30, 2011	December 31, 2010
	(In millions)	
Net cash provided by operating activities	\$ 278.0	\$ 389.3
Net cash used in investing activities	(136.5)	(636.2)
Net cash provided by (used in) financing activities	(120.3)	529.5
Effect of exchange rate changes on cash and cash equivalents	(1.1)	3.0
Net increase in cash and cash equivalents	20.1	285.6
Cash and cash equivalents, beginning of year	366.9	455.2
Cash and cash equivalents, end of quarter	\$ 387.0	\$ 740.8

Cash and Cash Equivalents: Our cash and cash equivalents increased \$20.1 million to \$387.0 million at the end of the second quarter of fiscal 2012 from \$366.9 million at the end of fiscal 2011. The increase was primarily due to \$278.0 million of net cash provided by operating activities and \$361.2 million of net proceeds from borrowings, mostly offset by \$423.2 million used to repurchase shares of our common stock, \$111.3 million of property, plant and equipment additions and \$64.5 million used to pay cash dividends.

Our financial position remained strong at December 30, 2011. We ended the second quarter of fiscal 2012 with cash and cash equivalents of \$387.0 million; we have no long-term debt maturing until fiscal 2016; we have a senior unsecured \$750 million revolving credit facility that expires in September 2013 (\$210.0 million of which was available to us as of December 30, 2011 as a result of \$540.0 million of short-term debt outstanding under our commercial paper program, which was supported by such senior unsecured revolving credit facility); we have a senior unsecured \$250 million 364-day revolving credit facility that expires on September 26, 2012 (all of which was available to us as of December 30, 2011); and we do not have any material defined benefit pension plan obligations.

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

We also currently believe that existing cash, funds generated from operations, our credit facilities and access to the public and private debt and equity markets will be sufficient to provide for our anticipated working capital requirements, capital expenditures,

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potential acquisitions and repurchases under our share repurchase program for the next 12 months and for the reasonably foreseeable future thereafter. We anticipate tax payments over the next three years to be approximately equal to our tax expense during the same period. Other than those cash outlays noted in the Commercial Commitments and Contractual Obligations discussion below in this MD&A, capital expenditures and repurchases under our share repurchase program, no other significant cash outlays are anticipated during the remainder of fiscal 2012.

There can be no assurance, however, that our business will continue to generate cash flows at current levels, that ongoing operational improvements will be achieved, or that the cost or availability of future borrowings, if any, under our commercial paper program or our credit facilities 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 repurchase program, reduce or eliminate dividends, refinance all or a portion of our existing debt or obtain additional financing. Our ability to make principal payments or pay interest on or refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the defense, government and integrated communications and information technology and services markets and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Net cash provided by operating activities: Our net cash provided by operating activities was \$278.0 million in the first two quarters of fiscal 2012 compared with \$389.3 million in the first two quarters of fiscal 2011. Cash flow from operations was positive in all of our business segments in the first two quarters of fiscal 2012. The decrease in net cash provided by operating activities in the first two quarters of fiscal 2012 compared with the first two quarters of fiscal 2011 was primarily due to the decrease in operating income at our RF Communications segment. Net cash provided by operating activities in the first two quarters of fiscal 2011 benefited from expedited shipments of tactical radios to equip MRAPs.

Net cash used in investing activities: Our net cash used in investing activities was \$136.5 million in the first two quarters of fiscal 2012 compared with \$636.2 million in the first two quarters of fiscal 2011. Net cash used in investing activities in the first two quarters of fiscal 2012 consisted of \$111.3 million of property, plant and equipment additions, \$14.0 million of net cash paid for acquired businesses and \$11.2 million of capitalized software additions. Net cash used in investing activities in the first two quarters of fiscal 2011 consisted of \$518.0 million of net cash paid for acquired businesses, \$101.0 million of property, plant and equipment additions, \$10.0 million of cash paid for a cost-method investment and \$7.2 million of capitalized software additions. Our total capital expenditures, including capitalized software, in fiscal 2012 are expected to be between \$265 million and \$285 million.

Net cash provided by (used in) financing activities: Our net cash used in financing activities was \$120.3 million in the first two quarters of fiscal 2012 compared with net cash provided by financing activities of \$529.5 million in the first two quarters of fiscal 2011. Net cash used in financing activities in the first two quarters of fiscal 2012 primarily consisted of \$423.2 million used to repurchase shares of our common stock and \$64.5 million used to pay cash dividends, partially offset by \$361.2 million of net proceeds from borrowings to partially fund such uses. Net cash provided by financing activities in the first two quarters of fiscal 2011 primarily consisted of \$688.7 million of net proceeds from borrowings to partially fund our acquisition of CapRock, partially offset by \$105.7 million used to repurchase shares of our common stock and \$64.0 million used to pay cash dividends.

Common Stock Repurchases

During the second quarter of fiscal 2012, we used \$17.0 million to repurchase 450,000 shares of our common stock under our repurchase program at an average price per share of \$37.72, including commissions. During the second quarter of fiscal 2011, we used \$50.0 million to repurchase 1,083,862 shares of our common stock under our repurchase program at an average price per share of \$46.13, including commissions. During the first two quarters of fiscal 2012, we used \$417.0 million to repurchase 11,068,805 shares of our common stock under our repurchase program at an average price per share of \$37.67, including commissions. During the first two quarters of fiscal 2011, we used \$100.0 million to repurchase 2,257,762 shares of our common stock under our repurchase program at an average price per share of \$44.29, including commissions. In the second quarter of fiscal 2012 and second quarter of fiscal 2011, \$0.1 million and \$0.2 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 2012 and first two quarters of fiscal 2011, \$6.2 million and \$5.7 million, respectively, in shares of our common stock were delivered to us or withheld by us to satisfy withholding taxes on employee share-based awards. Shares repurchased by us are cancelled and retired.

On July 30, 2011, our Board of Directors approved a new \$1 billion share repurchase program (the New Repurchase Program). The New Repurchase Program replaced our prior share repurchase program (the 2009 Repurchase Program), which had a remaining, unused authorization of approximately \$200 million as of July 29, 2011. As of December 30, 2011, we have a remaining authorization to repurchase approximately \$583 million in shares of our common stock under the New Repurchase Program, which does not have a stated expiration date. The New Repurchase Program has resulted, and is expected to continue to result, in repurchases in excess of the dilutive effect of shares issued under our

share-based incentive plans. However, the level of our repurchases depends on a number of factors, including our financial condition, capital requirements, results of operations, future business prospects and

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other factors that our Board of Directors may deem relevant. Share repurchases are expected to be funded with available cash and commercial paper. Repurchases under the New Repurchase Program 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 share 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 2012 and our repurchase program is set forth in this Report under Part II. Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Dividends

On July 30, 2011, our Board of Directors increased the quarterly cash dividend rate on our common stock from \$.25 per share to \$.28 per share, for an annualized cash dividend rate of \$1.12 per share, which was our tenth consecutive annual increase in our quarterly cash dividend rate. Our annualized cash dividend rate was \$1.00 per share in fiscal 2011. 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, results of operations, future business prospects and other factors that our Board of Directors may deem relevant.

Capital Structure and Resources

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

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

The Amended 364-Day Credit Agreement contains certain customary covenants similar to the 2008 Credit Agreement discussed below. We were in compliance with the covenants in the Amended 364-Day Credit Agreement in the second quarter of fiscal 2012. The Amended 364-Day Credit Agreement contains certain events of default similar to the 2008 Credit Agreement discussed below. If an event of default occurs the lenders may, among other things, terminate their commitments and declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees. All amounts borrowed or outstanding under the Amended 364-Day Credit Agreement are due and mature on September 26, 2012, unless the commitments are terminated earlier either at our request or if certain events of default occur. At December 30, 2011, we had no borrowings outstanding under the Amended 364-Day Credit Agreement.

2008 Credit Agreement: On September 10, 2008, we entered into a five-year, senior unsecured revolving credit agreement (the 2008 Credit Agreement) with a syndicate of lenders. The 2008 Credit Agreement provides for the extension of credit to us in the form of revolving loans, including swingline loans, and letters of credit at any time and from time to time during the term of the 2008 Credit Agreement, in an aggregate principal amount at any time outstanding not to exceed \$750 million for both revolving loans and letters of credit, with a sub-limit of \$50 million for swingline loans and \$125 million for letters of credit. The 2008 Credit Agreement includes a provision pursuant to which, from time to time, we may request that the lenders in their discretion increase the maximum amount of commitments under the 2008 Credit Agreement by an amount not to exceed \$500 million. Only consenting lenders (including new lenders reasonably acceptable to the administrative agent) will participate in any such increase. In no event will the maximum amount of credit extensions available under the 2008 Credit Agreement exceed \$1.25 billion. The 2008 Credit Agreement may be used for working capital and other general corporate purposes (excluding hostile acquisitions) and to support any commercial paper that we may issue. Borrowings under the 2008 Credit Agreement may be denominated in U.S. Dollars, Euros, Sterling and any other currency acceptable to the administrative agent and the lenders, with a non-U.S. currency sub-limit of \$150

million. We may

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designate certain wholly owned subsidiaries as borrowers under the 2008 Credit Agreement, and the obligations of any such subsidiary borrower must be guaranteed by Harris Corporation. We also may designate certain subsidiaries as unrestricted subsidiaries, which means certain of the covenants and representations in the 2008 Credit Agreement do not apply to such subsidiaries.

At our election, borrowings under the 2008 Credit Agreement denominated in U.S. Dollars will bear interest either at LIBOR plus an applicable margin or at the base rate plus an applicable margin. The interest rate margin over LIBOR, initially set at 0.50 percent, may increase (to a maximum amount of 1.725 percent) or decrease (to a minimum of 0.385 percent) based on our Senior Debt Ratings and on the degree of utilization under the 2008 Credit Agreement (Utilization). The base rate is a fluctuating rate equal to the higher of the federal funds rate plus 0.50 percent or SunTrust Bank's publicly announced prime lending rate for U.S. Dollars. The interest rate margin over the base rate is 0.00 percent, but if our Senior Debt Ratings fall to BB+/Ba1 or below, then the interest rate margin over the base rate will increase to either 0.225 percent or 0.725 percent based on Utilization. Borrowings under the 2008 Credit Agreement denominated in a currency other than U.S. Dollars will bear interest at LIBOR plus the applicable interest rate margin over LIBOR described above. Letter of credit fees are also determined based on our Senior Debt Ratings and Utilization.

The 2008 Credit Agreement contains certain customary covenants, including covenants limiting: certain liens on our assets; certain mergers, consolidations or sales of assets; certain sale and leaseback transactions; certain vendor financing investments; and certain investments in unrestricted subsidiaries. The 2008 Credit Agreement also requires that we not permit our ratio of consolidated total indebtedness to total capital, each as defined, to be greater than 0.60 to 1.00 and not permit our ratio of consolidated EBITDA to consolidated net interest expense, each as defined, to be less than 3.00 to 1.00 (measured on the last day of each fiscal quarter for the rolling four-quarter period then ending). We were in compliance with the covenants in the 2008 Credit Agreement in the second quarter of fiscal 2012. The 2008 Credit Agreement contains certain events of default, including: failure to make payments; failure to perform or observe terms, covenants and agreements; material inaccuracy of any representation or warranty; payment default under other indebtedness with a principal amount in excess of \$75 million, other default under such other indebtedness that permits acceleration of such indebtedness, or acceleration of such other indebtedness; occurrence of one or more final judgments or orders for the payment of money in excess of \$75 million that remain unsatisfied; incurrence of certain ERISA liability in excess of \$75 million; any bankruptcy or insolvency; or a change of control, including if a person or group becomes the beneficial owner of 25 percent or more of our voting stock. If an event of default occurs, the lenders may, among other things, terminate their commitments and declare all outstanding borrowings to be immediately due and payable together with accrued interest and fees. All amounts borrowed or outstanding under the 2008 Credit Agreement are due and mature on September 10, 2013, unless the commitments are terminated earlier either at our request or if certain events of default occur. At December 30, 2011, we had no borrowings outstanding under the 2008 Credit Agreement, but we had \$540.0 million of short-term debt outstanding under our commercial paper program that was supported by our senior unsecured revolving credit facility under the 2008 Credit Agreement.

Long-Term Debt: On December 3, 2010, we completed the issuance of \$400 million in aggregate principal amount of 4.4% Notes due December 15, 2020 (the 2020 Notes) and \$300 million in aggregate principal amount of 6.15% Notes due December 15, 2040 (the 2040 Notes). Interest on each of the 2020 Notes and the 2040 Notes is payable semi-annually in arrears on June 15 and December 15 of each year. We may redeem the 2020 Notes and/or the 2040 Notes at any time in whole or, from time to time, in part at the applicable make-whole redemption price. The applicable make-whole redemption price is equal to the greater of 100 percent of the principal amount of the notes being redeemed or the sum of the present values of the remaining scheduled payments of the principal and interest (other than interest accruing to the date of redemption) on the notes being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as defined, plus 25 basis points in the case of the 2020 Notes and 35 basis points in the case of the 2040 Notes. In each case, we will pay accrued interest on the principal amount of the notes being redeemed to the redemption date. In addition, upon a change of control combined with a below-investment-grade rating event, we may be required to make an offer to repurchase the notes at a price equal to 101 percent of the aggregate principal amount of the notes repurchased, plus accrued interest on the notes repurchased to the date of repurchase. We incurred \$5.5 million and \$4.8 million in debt issuance costs and discounts related to the issuance of the 2020 Notes and 2040 Notes, respectively, which are being amortized on a straight-line basis over the respective lives of the notes, which approximates the effective interest rate method, and are reflected as a portion of interest expense in the accompanying Condensed Consolidated Statement of Income (Unaudited).

On June 9, 2009, we completed the issuance of \$350 million in aggregate principal amount of 6.375% Notes due June 15, 2019. Interest on the notes is payable on June 15 and December 15 of each year. We may redeem the notes at any time in whole or, from time to time, in part at the make-whole redemption price. The make-whole redemption price is equal to the greater of 100 percent of the principal amount of the notes being redeemed or the sum of the present values of the remaining scheduled payments of the principal and interest (other than interest accruing to the date of redemption) on the notes being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as defined, plus 37.5 basis points. In each case, we will pay accrued interest on the principal amount of the notes being redeemed to the redemption date. In addition, upon a change of control combined with a below-investment-grade rating event, we may be required to

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make an offer to repurchase the notes at a price equal to 101 percent of the aggregate principal amount of the notes repurchased, plus accrued interest on the notes repurchased to the date of repurchase. We incurred \$4.1 million in debt issuance costs and discounts related to the issuance of the notes, which are being amortized on a straight-line basis over the life of the notes, which approximates the effective interest rate method, and are reflected as a portion of interest expense in the accompanying Condensed Consolidated Statement of Income (Unaudited).

On December 5, 2007, we completed the issuance of \$400 million in aggregate principal amount of 5.95% Notes due December 1, 2017. Interest on the notes is payable on June 1 and December 1 of each year. We may redeem the notes at any time in whole or, from time to time, in part at the make-whole redemption price. The make-whole redemption price is equal to the greater of 100 percent of the principal amount of the notes being redeemed or the sum of the present values of the remaining scheduled payments of the principal and interest (other than interest accruing to the date of redemption) on the notes being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as defined, plus 30 basis points. In each case, we will pay accrued interest on the principal amount of the notes being redeemed to the redemption date. In addition, upon a change of control combined with a below-investment-grade rating event, we may be required to make an offer to repurchase the notes at a price equal to 101 percent of the aggregate principal amount of the notes repurchased, plus accrued interest on the notes repurchased to the date of repurchase. In conjunction with the issuance of the notes, we entered into treasury lock agreements to protect against fluctuations in forecasted interest payments resulting from the issuance of ten-year, fixed-rate debt due to changes in the benchmark U.S. Treasury rate. These agreements were determined to be highly effective in offsetting changes in forecasted interest payments as a result of changes in the benchmark U.S. Treasury rate. Upon termination of these agreements on December 6, 2007, we recorded a loss of \$5.5 million, net of income tax, in shareholders' equity as a component of accumulated other comprehensive income. This loss, along with \$5.0 million in debt issuance costs, is being amortized on a straight-line basis over the life of the notes, which approximates the effective interest rate method, and is reflected as a portion of interest expense in the accompanying Condensed Consolidated Statement of Income (Unaudited).

On September 20, 2005, we completed the issuance of \$300 million in aggregate principal amount of 5.0% Notes due October 1, 2015. Interest on the notes is payable on April 1 and October 1 of each year. We may redeem the notes in whole, or in part, at any time at the make-whole redemption price. The make-whole redemption price is equal to the greater of 100 percent of the principal amount of the notes being redeemed or the sum of the present values of the remaining scheduled payments of the principal and interest (other than interest accruing to the date of redemption) on the notes being redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as defined, plus 15 basis points. In each case, we will pay accrued interest on the principal amount of the notes being redeemed to the redemption date. We incurred \$4.1 million in debt issuance costs and discounts related to the issuance of the notes, which are being amortized on a straight-line basis over a ten-year period and reflected as a portion of interest expense in the accompanying Condensed Consolidated Statement of Income (Unaudited).

In February 1998, we completed the issuance of \$150 million in aggregate principal amount of 6.35% Debentures due February 1, 2028. On December 5, 2007, we repurchased and retired \$25.0 million in aggregate principal amount of the debentures. On February 1, 2008, we redeemed \$99.2 million in aggregate principal amount of the debentures pursuant to the procedures for redemption at the option of the holders of the debentures. We may redeem the remaining \$25.8 million in aggregate principal amount of the debentures in whole, or in part, at any time at a pre-determined redemption price.

In January 1996, we completed the issuance of \$100 million in aggregate principal amount of 7.0% Debentures due January 15, 2026. The debentures are not redeemable prior to maturity.

Short-Term Debt: Our short-term debt at December 30, 2011, September 30, 2011 and July 1, 2011 was \$544.9 million, \$561.0 million and \$180.0 million, respectively, and consisted primarily of commercial paper outstanding under our commercial paper program that was supported by our \$750 million senior unsecured revolving credit facility under the 2008 Credit Agreement. Our short-term debt at July 1, 2011 was primarily due to commercial paper issued to fund a portion of the purchase price for our acquisitions of Schlumberger GCS and Carefx during the fourth quarter of fiscal 2011. The higher amount of short-term debt at September 30, 2011 and December 30, 2011 compared with July 1, 2011 was primarily due to commercial paper issued to fund repurchases under our New Repurchase Program during the first quarter of fiscal 2012.

Other: We have an automatically effective, universal shelf registration statement, filed with the SEC on June 3, 2009, 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.

We expect to maintain operating ratios, fixed-charge coverage ratios and balance sheet ratios sufficient for retention of, or improvement to, our current debt ratings. There are no assurances that our debt ratings will not be reduced in the future. If our debt

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ratings are lowered below investment grade, then we may not be able to issue short-term commercial paper, but may instead need to borrow under our credit facilities or pursue other options. In addition, if our debt ratings are lowered below investment grade, then we may also be required to provide cash collateral to support 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 2011 Form 10-K. We do not currently foresee losing our investment-grade debt ratings, but no assurances can be given. If our debt ratings were downgraded, however, it could adversely impact, among other things, our future borrowing costs and access to capital markets and our ability to receive certain types of contract awards.

Off-Balance Sheet Arrangements

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

Any obligation under certain guarantee contracts;

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

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

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

Currently we are not participating in any material transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we do not have any material retained or contingent interest in assets as defined above. As of December 30, 2011, 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 2011 Form 10-K include our commercial commitments and contractual obligations. During the first two quarters ended December 30, 2011, 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, letters of credit, guarantees and other arrangements as disclosed in our Fiscal 2011 Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of

assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 1: Significant Accounting Policies in our Notes to Consolidated Financial Statements included in our Fiscal 2011 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 development and production contracts and contract estimates, (ii) provisions for excess and obsolete inventory losses, (iii) impairment testing of goodwill and other intangible assets, 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 2011 Form 10-K.

Impact of Recently Issued Accounting Standards

Accounting standards issued but not effective for us until after December 30, 2011 are not expected to have a material impact on our financial position, results of operations or cash flows.

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FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

This Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed in or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, statements concerning: our plans, strategies and objectives for future operations; new products, services or developments; future economic conditions, performance or outlook; the outcome of contingencies; the potential level of share repurchases; 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, projects and similar words or expressions. You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Report and are not guarantees of future performance or actual results. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The following are some of the factors we believe could cause our actual results to differ materially from our historical results or our current expectations or projections:

We depend on U.S. Government customers for a significant portion of our revenue, and the loss of this relationship or a shift in U.S. Government funding priorities could have adverse consequences on our future business.

We depend significantly on our 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 one or more of these contracts could have an adverse impact on our business.

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

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

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

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