

HARRIS CORP /DE/
Form 10-Q/A
June 04, 2002

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**Form 10-Q/A
AMENDMENT NO. 1**

(Mark One)

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

For the quarterly period ended September 28, 2001

or

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

For the transition period from _____ to _____

Commission File Number 1-3863

HARRIS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

34-0276860

(State or other jurisdiction of incorporation or
organization)

(I.R.S. Employer Identification No.)

1025 West NASA Boulevard
Melbourne, Florida 32919

(Address of principal executive offices)(Zip Code)

(321) 727-9100

(Registrant's telephone number, including area code)

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

Yes No

The number of shares outstanding of the registrant's common stock, as of November 5, 2001 was 66,061,771 shares.

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HARRIS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF INCOME

HARRIS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

HARRIS CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

SIGNATURE

Table of Contents

HARRIS CORPORATION

FORM 10-Q/A

For the Quarter Ended September 28, 2001

INDEX

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

The following information for the quarters ended September 28, 2001 and September 29, 2000 has not been audited by independent accountants, but in the opinion of management reflects all adjustments (consisting only of normal, recurring items) necessary for a fair presentation of the results for the indicated periods. The results of operations for the quarter ended September 28, 2001 are not necessarily indicative of the results for the full fiscal year.

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

	Quarter Ended	
	September 28, 2001	September 29, 2000
	(In millions, except per share amounts)	
Revenue from product sales and services	\$ 443.4	\$ 460.4
Cost of product sales and services		
(330.8) (335.6)		
Engineering, selling and administrative expenses		
(99.6) (100.8)		
Amortization of goodwill		
(4.5)		
Purchased in-process research and development		
(73.5)		
Non-operating income		
17.9 43.9		
Interest income		
3.2 4.3		
Interest expense		
(8.2) (8.1)		
Income (loss) before income taxes	25.9	(13.9)
Income taxes		
(8.8) (20.9)		
Income (loss) after income taxes	17.1	(34.8)

Net income (loss)
\$17.1 \$(34.8)

Net income (loss) per common share

Basic
\$.26 \$(.51)
Diluted
\$.26 \$(.51)
Cash dividends paid per common share
\$.05 \$.05
Average basic shares outstanding
65.7 68.3
Average diluted shares outstanding
66.0 68.3

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

(In millions)	September 28, 2001 (unaudited)	June 29, 2001 (audited)
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$92.8	\$103.0
Marketable securities		
93.4 146.8		
Receivables, net		
404.0 451.6		
Unbilled costs and accrued earnings on fixed price contracts		
205.8 182.6		
Inventories		
263.1 267.7		
Current deferred income taxes		
91.9 70.3		
<hr/>		
<hr/>		
Total current assets		
1,151.0 1,222.0		
<i>Other Assets</i>		
Plant and equipment, net		
276.0 281.9		
Goodwill		
209.4 215.1		
Non-current notes receivable		
40.9 36.9		
Non-current deferred income taxes		
16.4 19.5		
Other assets		
177.2 184.5		
<hr/>		
<hr/>		
	719.9	737.9

\$1,870.9 \$1,959.9

**Liabilities and
Shareholders Equity**

Current Liabilities

Short-term debt
\$0.3 \$33.2
Accounts payable
98.2 125.5
Compensation and benefits
92.6 110.5
Other accrued items
100.8 103.8
Advance payments and
unearned income
78.3 74.3
Income taxes
16.6 11.2
Current portion of long-term
debt
1.6 1.8

Total current liabilities
388.4 460.3

Other Liabilities

Long-term debt
383.7 384.4

Shareholders Equity

Preferred Stock, without par
value; 1,000,000 shares
authorized; none issued

Common Stock, \$1.00 par
value; 250,000,000 shares
authorized; issued and
outstanding 65,979,333
shares at September 28, 2001
and 65,845,902 shares at
June 29, 2001
66.0 65.8

Other capital	215.7	214.0
Retained earnings	816.1	802.3
Unearned compensation	(5.0)	(4.5)
Accumulated other comprehensive income	6.0	37.6

Total shareholders' equity	1,098.8	1,115.2
----------------------------	---------	---------

	\$1,870.9	\$1,959.9
--	-----------	-----------

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

HARRIS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(unaudited)

	Quarter Ended	
(In millions)	September 28, 2001	September 29, 2000
Operating Activities		
Net income (loss)		
\$17.1 \$(34.8)		
Adjustments to reconcile net income (loss) to net cash provided by and (used in) operating activities:		
Depreciation and amortization		
13.6 17.4		
Non-current deferred income tax		
3.1 9.9		
Purchased in-process research & development		
73.5		
Gain on the sale of securities available for sale		
(16.7) (52.0)		
Gain on the sale of GE Harris Energy Systems, LLC		
(10.3)		
(Increase) decrease in:		
Accounts and notes receivable		
43.7 (10.4)		
Unbilled costs and inventories		
(16.3) (30.4)		
Increase (decrease) in:		
Accounts payable and accrued expenses		
(50.4) (1.5)		
Advance payments and unearned income		
3.9 3.1		
Income taxes		
1.4 10.8		
Other		
16.4 (16.9)		

Net cash provided by (used in)
operating activities
5.5 (31.3)

Investing Activities

Cash paid for acquired
businesses
(8.6) (126.1)
Additions of plant and
equipment
(9.5) (13.9)
Cash paid for strategic
investments
(2.1) (1.0)
Proceeds from the sale of
securities available for sale
17.5 53.7
Proceeds from the sale of GE
Harris Energy Systems, LLC
23.0

Net cash provided by (used in)
investing activities
20.3 (87.3)

Financing Activities

Decrease in debt
(33.8) (47.6)
Proceeds from sale of
Common Stock
0.8 1.1
Purchase of Common Stock
for treasury
(51.6)
Cash dividends
(3.3) (3.4)

Net cash used in financing
activities
(36.3) (101.5)

Effect of exchange rate
changes on cash and cash
equivalents
0.3 (0.6)

Net decrease in cash and cash
equivalents
(10.2) (220.7)
Cash and cash equivalents at
beginning of quarter
103.0 378.2

Cash and cash equivalents at
end of quarter
\$92.8 \$157.5

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

September 28, 2001

Note A Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations, and changes in cash flows in conformity with accounting principles generally accepted in the United States. In the opinion of management such financial statements reflect all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for such period. For further information refer to the financial statements and notes to financial statements included in Harris' Annual Report on Form 10-K/A for the fiscal year ended June 29, 2001.

Note B Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141, Business Combinations (Statement 141) and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (Statement 142). Statement 141 eliminates the pooling method of accounting for all business combinations initiated after June 30, 2001 and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. Harris adopted this accounting standard for all business combinations initiated after June 30, 2001.

As of the beginning of the first quarter of fiscal 2002, Harris also adopted Statement 142, which addresses the financial accounting and reporting standards for goodwill and other intangible assets subsequent to their acquisition. Statement 142 requires that goodwill be separately disclosed from other intangible assets in the statement of financial position, and no longer be amortized but tested for impairment on a periodic basis. The provisions of Statement 142 also require the completion of a transitional impairment test within six months of adoption, with any impairments identified treated as a cumulative effect of a change in accounting principle. Harris is in the process of completing its transitional impairment test and does not believe it will have an adverse impact on Harris' operations or financial position.

In accordance with Statement 142, Harris discontinued the amortization of goodwill as of the beginning of the first quarter of fiscal 2002. A reconciliation of previously reported net income (loss) and net income (loss) per common share to the amounts adjusted for the exclusion of goodwill amortization net of the related income tax effect follows:

	Quarter Ended	
	September 28, 2001	September 29, 2000
	(In millions, except per share amounts)	
Reported net income (loss)	\$ 17.1	\$ (34.8)
Exclude goodwill amortization, net of income taxes of \$1.6		
2.9		
<hr/>		
<hr/>		
Adjusted net income (loss)	\$17.1	\$(31.9)

Basic net income (loss) per
common share:

Reported net income (loss)
\$.26 \$.51
Exclude goodwill
amortization, net of income
taxes
.04

\$.26 \$.47

Diluted net income
(loss) per common share:

Reported net income (loss)
\$.26 \$.51
Exclude goodwill
amortization, net of income
taxes
.04

\$.26 \$.47

Table of Contents

Note C Comprehensive Loss and Accumulated Other Comprehensive Income

Comprehensive losses for the quarters ended September 28, 2001 and September 29, 2000 were \$14.5 million and \$93.1 million, respectively.

The components of accumulated other comprehensive income, net of related tax, at September 28, 2001 and June 29, 2001 are as follows:

(In millions)	September 28, 2001	June 29, 2001
	_____	_____
Net unrealized gains on securities available for sale	\$ 33.9	\$ 67.1
Foreign currency translation adjustments		
(30.1) (28.5)		
Net unrealized gain (loss) on hedging activity		
2.2 (1.0)		
<hr/>		
<hr/>		
\$6.0 \$37.6		
<hr/>		
<hr/>		

Note D Receivables

Receivables are summarized below:

(In millions)	September 28, 2001	June 29, 2001
	_____	_____
Accounts receivable	\$ 395.9	\$443.5
Notes receivable due within one year-net		
26.6 31.0		
<hr/>		
<hr/>		
422.5 474.5		
Less allowances for collection losses		
18.5 22.9		
<hr/>		

\$404.0 \$451.6

Note E Inventories and Unbilled Costs

Inventories are summarized below:

(In millions)	September 28, 2001	June 29, 2001
Finished products	\$ 57.0	\$ 52.9
Work in process		
23.6 25.8		
Raw materials and supplies		
182.5 189.0		

\$263.1 \$267.7

Unbilled costs and accrued earnings on fixed-price contracts are net of progress payments of \$205.1 million at September 28, 2001 and \$193.8 million at June 29, 2001.

Note F Plant and Equipment

Plant and equipment are summarized below:

(In millions)	September 28, 2001	June 29, 2001
Land	\$ 12.3	\$ 12.3
Buildings		
273.3 273.1		
Machinery and equipment		

562.7 566.4

848.3 851.8
Less allowances for depreciation
572.3 569.9

\$276.0 \$281.9

Table of Contents

Note G Goodwill

Changes in the carrying amount of goodwill for the quarter ended September 28, 2001, by operating segment, are as follows:

(In millions)	Government Communications	RF Communications	Microwave Communications	Network Support	Broadcast Communications	Other	Total
Balance as of June 30, 2001	\$ 24.7	\$ 6.0	\$ 67.7	\$ 13.4	\$ 92.6	\$ 10.7	\$215.1
Goodwill related to operations that were sold during the period							
(3.3)		(10.7)	(14.0)				
Goodwill acquired during the period							
	7.7	7.7					
Other (including translation and true-ups of previously estimated purchase price allocations)							
(1.3)	(1.2)	3.1	0.6				

Balance as of September 28, 2001
 \$20.1 \$6.0 \$66.5 \$13.4 \$103.4 \$ 209.4

Harris has other identifiable intangible assets related primarily to technology acquired through acquisitions. These other intangible assets included in Other assets on the condensed consolidated balance sheet were \$13.6 million at September 28, 2001 and \$11.6 million at June 29,

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

2001. Accumulated amortization on these intangible assets was \$1.1 million at September 28, 2001 and \$0.8 million at June 29, 2001. Amortization expense on these intangible assets was \$0.3 million for the quarter ended September 28, 2001 and \$0.2 million for the quarter ended September 29, 2000. The estimated amortization expense for the five fiscal years following fiscal 2001 is \$1.4 million for each year and \$6.9 million thereafter.

Note H Net Income Per Share

Average outstanding shares used in the computation of net income (loss) per share are as follows:

(In millions)	Quarter Ended	
	September 28, 2001	September 29, 2000
Basic:		
Weighted average shares outstanding	65.9	68.5
Contingently issuable shares	(0.2)	(0.2)
<hr/>		
<hr/>		
	65.7	68.3
<hr/>		
<hr/>		
Diluted:		
Weighted average shares outstanding	65.9	68.5
Dilutive stock options	0.3	
Contingently issuable shares	(0.2)	(0.2)
<hr/>		
<hr/>		
	66.0	68.3



The effect of dilutive stock options is not included in the computation for the quarter ended September 29, 2000 because to do so would be antidilutive.

Note I Reclassifications

Certain prior-year amounts have been reclassified on the financial statements to conform to current year classifications.

Note J Non-Operating Income

The components of non-operating income are as follows:

(In millions)	Quarter Ended	
	September 28, 2001	September 29, 2000
Gains from the sale of securities available for sale	\$ 16.7	\$ 52.0
Gain on the sale of GE Harris Energy Control Systems, LLC	10.3	
Royalty income (expense)	(2.1)	(0.5)
Equity income (loss)	(3.5)	
Investments in marketing and technology projects and other items	(7.0)	(4.1)
<hr/>		
<hr/>		
	\$17.9	\$43.9
<hr/>		
<hr/>		

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

The following discussion and analysis provides information that management believes is useful in understanding Harris' operating results, cash flows, and financial condition. The discussion should be read in conjunction with, and is qualified in its entirety by reference to, the Condensed Consolidated Financial Statements and related notes appearing elsewhere in this report. Except for the historical information contained here, the discussions in this report contain forward-looking statements that involve risks and uncertainties. Harris' actual results could differ materially from those discussed here. Factors that could cause or contribute to such differences include, but are not limited to, those discussed under Forward-Looking Statements below.

RESULTS OF OPERATIONS

Revenue for the first quarter of fiscal 2002 was \$443.4 million, a decrease of 3.7 percent compared to the first quarter of fiscal 2001. The decrease in revenues resulted primarily from the drop in Network Support and Microwave Communications segments' revenues, which was partially offset by increased revenues in the Government Communications, RF Communications, and Broadcast Communications segments. Income before income taxes in the first quarter of fiscal 2002 was \$25.9 million versus a loss before income taxes of \$13.9 million for the first quarter of fiscal 2001. The improvement in income before income taxes was due primarily to a \$73.5 million write-off of purchased in-process research and development in the first quarter of fiscal 2001 related to Harris' acquisition of WavTrace, Inc. as well as increased income from the Government Communications, RF Communications and Broadcast Communications segments. Also, there is no amortization of goodwill in fiscal 2002 due to Harris' implementation of FAS 142. These improvements were partially offset by lower non-operating income and losses incurred in the Microwave Communications and Network Support segments as well as higher headquarters expense and net interest expense.

Revenue and Income Before Income Taxes by Segment

Harris is structured primarily around the markets it serves and operates in five business segments, which are Government Communications, RF Communications, Microwave Communications, Network Support and Broadcast Communications. Corporate eliminations represent the elimination of inter-segment sales.

Segment revenue and income (loss) before income taxes are as follows:

(In millions)	Quarter Ended		
	September 28, 2001	September 29, 2000	Percent Increase/ (Decrease)
REVENUE			
Government Communications	\$216.0	\$198.3	8.9%
RF Communications	53.1	47.0	13.0%
Microwave Communications	79.8	106.5	(25.1)%
Network Support	13.4	37.9	(64.6)%
Broadcast Communications	82.3	72.4	13.7%
Corporate eliminations	(1.2)	(1.7)	
<hr/>			
<hr/>			
Total Revenue			

\$443.4 \$460.4 (3.7)%

INCOME (LOSS) BEFORE INCOME TAXES

Government Communications

\$18.7 \$15.5 20.6%

% of revenue

8.7% 7.8%

RF Communications

8.4 5.7 47.4%

% of revenue

15.8% 12.1%

Microwave Communications(1)

(5.4) (72.8) (92.6)%

% of revenue

(6.8)% (68.4)%

Network Support

(4.3) 3.3

% of revenue

(32.1)% 8.7%

Broadcast Communications

7.5 6.6 13.6%

% of revenue

9.1% 9.1%

Headquarters expense

(11.9) (7.8) 52.6%

Non-operating income

17.9 43.9 (59.2)%

Amortization of goodwill

(4.5)

Net interest

(5.0) (3.8) 31.6%

Total Income (Loss) Before Income Taxes

\$25.9 \$(13.9)

% of revenue

5.8% (3.0)%

(1) The quarter ended September 29, 2000 includes a \$73.5 million write-off of purchased in-process research and development.

Table of Contents

Government Communications Segment: Government Communications segment revenue in the first quarter of fiscal 2002 increased 8.9 percent from the first quarter of fiscal 2001 and income before income taxes increased 20.6 percent. The segment continued its favorable technical and management performance on defense and other government contracts. Growth in the Government Communications segment continued on an upward trend begun in the second quarter of fiscal 2001, aided by increased U.S. government procurement. During the quarter, Harris sold its publishing systems business, which was part of the Government Communications segment. Harris realized a small gain on this sale.

RF Communications Segment: The RF Communications segment revenues were up 13.0 percent in the first quarter of fiscal 2002 when compared to the first quarter of fiscal 2001. Harris is the leading supplier of secure tactical radio communications for defense and other peacekeeping forces worldwide. Demand for Harris' family of Falcon II radios including a new multiband, software reprogrammable radio with VHF for short-range ground-to-ground communications, UHF for ground-to-air, and SATCOM links for GPS and other satellite communications has been strong. In July 2001, the Falcon II was selected as a major component in the \$2.4 billion U.K. Bowman Programme by CDC Systems U.K. Limited, the prime contractor for the program, which is one of the largest land-based military projects in recent U.K. history. Income before income taxes increased from \$5.7 million in the first quarter of fiscal 2001 to \$8.4 million in the first quarter of fiscal 2002. The increase was due to the higher sales volume and improved margins on Falcon II radios as these products gained manufacturing efficiencies.

Microwave Communications Segment: Slow demand in worldwide telecom markets led to decreasing revenues for Harris' Microwave Communications segment's products and services. Microwave Communications segment revenues decreased 25.1 percent in the first quarter of fiscal 2002 when compared to the first quarter of fiscal 2001. Harris continued to outperform its competition in the Microwave Communications segment. Capital spending constraints are significantly reducing telecom infrastructure buildouts in most international markets. In response, Harris took further steps during the quarter to reduce costs to improve the profitability of the segment on lower revenue. The fiscal 2002 first quarter loss before income taxes was \$5.4 million for the Microwave Communications segment, which compares to \$0.7 million income before income taxes in the first quarter of fiscal 2001 after excluding the \$73.5 million write-off of purchased in-process research and development related to the Microwave Communications segment's acquisition of WavTrace, Inc. The first quarter of fiscal 2002 loss was due to the lower sales volume and one-time expenses incurred as a result of cost-cutting actions in the segment.

Network Support Segment: Slow demand in the worldwide telecom markets also led to decreasing revenues for Harris' Network Support segment's products and services. Network Support segment revenues decreased 64.6 percent in the first quarter of fiscal 2002 when compared to the first quarter of fiscal 2001. In the first quarter of fiscal 2001, sales for these products and services were still benefiting from the DSL build-out before that market collapsed in the third quarter of fiscal 2001. The fiscal 2002 first quarter loss before income taxes was \$4.3 million for the Network Support segment, which compares to \$3.3 million income before income taxes in the first quarter of fiscal 2001. In response, Harris took further steps during the quarter to reduce costs to improve the profitability of the segment on lower revenue. The first quarter of fiscal 2002 loss was due to the lower sales volume and under absorption of overhead costs on lower volume.

Broadcast Communications Segment: Revenues in the Broadcast Communications segment increased 13.7 percent compared to the first quarter of fiscal 2001. The continuing growth in Broadcast Communications segment's revenues is directly related to the U.S. transition to digital television. The industry transition remains on track, and Harris is continuing to capture a large share of digital infrastructure sales. Harris is also taking a stronger position in the on-going digital transition in European-standard countries. In the first quarter of fiscal 2002, Harris acquired the Austrian-based Hirschmann Multimedia Communications Network, which positions Harris as the leading provider of international digital broadcasting equipment. Income before income taxes increased from \$6.6 million in the first quarter of fiscal 2001 to \$7.5 million in the first quarter of fiscal 2002 due to the increased sales volume for digital television products, which was dampened by lower sales volume on high margin automation products.

Table of Contents**Comparative Statement of Income**

Harris comparative statement of income is as follows:

(In millions)	Quarter Ended		Percent Increase/ (Decrease)
	September 28, 2001	September 29, 2000	
Revenue	\$443.4	\$460.4	(3.7)%
Cost of revenue	(330.8)	(335.6)	(1.4)%
<hr/>			
Gross margin	112.6	124.8	(9.8)%
<i>% of revenue</i>	25.4%	27.1%	
Engineering, selling and administrative expenses	(99.6)	(100.8)	(1.2)%
<i>% of revenue</i>	22.5%	21.9%	
Amortization of goodwill	(4.5)		
Purchased in-process research and development	(73.5)		
Non-operating income	17.9	43.9	(59.2)%
Interest income	3.2	4.3	(25.6)%
Interest expense	(8.2)	(8.1)	1.2%
<hr/>			
Income (loss) before income taxes	25.9	(13.9)	
<i>% of revenue</i>	5.8%	(3.0)%	
Income taxes	(8.8)	(20.9)	(57.9)%
<hr/>			

Net income (loss)
\$17.1 \$(34.8)

% of revenue
3.9% (7.6)%

Gross Margin: The gross margin as a percent of revenue decreased from 27.1 percent in the first quarter of fiscal 2001 to 25.4 percent in the first quarter of 2002. The decrease is primarily due to lower sales volume in what historically was high margin Network Support segment's products, a reduction in Network Support segment margins due to under absorption of overhead and also from lower sales volume in the Microwave Communications segment.

Engineering, Selling and Administrative Expenses: Engineering, selling, and administrative expenses as a percent of revenue were 22.5 percent in the first quarter of fiscal 2002 versus 21.9 percent in the first quarter of fiscal 2001. The increase as a percentage of revenue was primarily due to costs associated with a planned workforce reduction in Harris Microwave Communications segment and increased corporate headquarters expense as a result of higher expenses from Harris supplemental executive retirement plan, which fluctuate as a function of the U.S. stock market. These increased expenses were partially offset by lower engineering, selling and administrative expenses resulting from cost-cutting efforts primarily in the Microwave Communications and Network Support segments.

Non-Operating Income: Non-operating income decreased from \$43.9 million in the first quarter of fiscal 2001 to \$17.9 million in the first quarter of fiscal 2002 due primarily to a \$35.3 million decrease in gains from the sale of marketable securities. This decrease was partially offset by a \$10.3 million gain from the sale of Harris minority interest in its GE Harris Energy Systems, LLC joint venture in the first quarter of fiscal 2002.

Interest Income and Interest Expense: Interest income decreased from \$4.3 million in the first quarter of fiscal 2001 to \$3.2 million in the first quarter of fiscal 2002 due to lower cash balances and lower interest rates in the current year. Interest expense remained relatively flat from \$8.1 million in the first quarter of fiscal 2001 to \$8.2 million in the first quarter of fiscal 2002.

Table of Contents

Income Taxes: The provision for income taxes as a percentage of pretax income was 34.0 percent in the first quarter of fiscal 2002 compared to income tax expense of \$20.9 million on a pretax loss of \$13.9 million in the first quarter of fiscal 2001. The fiscal 2001 pretax loss included a \$73.5 million write-off of purchased in-process research and development that was non-deductible. Excluding the impact of this write-off, the provision for income taxes as a percentage of pretax income was 35.0 percent in the first quarter of fiscal 2001. Both fiscal 2002 and fiscal 2001 benefited from tax rates on foreign source income and export sales, which offset the additional provision needed for state income taxes. The fiscal 2002 rate is lower due to lower state income tax.

Return on Revenue: Net income (loss) as a percentage of revenue was 3.9 percent in the first quarter of fiscal 2002 versus (7.6) percent in the first quarter of fiscal 2001. The improvement was due primarily to the reasons previously discussed.

Liquidity and Financial Position

Harris comparative financial position is as follows:

(In millions, except per share amounts)	As of September 28, 2001 (unaudited)	As of June 29, 2001 (audited)	Percent Increase/ (Decrease)
Cash and cash equivalents	\$92.8	\$ 103.0	(9.9)%
Marketable securities			
93.4	146.8		(36.4)%
Other current assets			
964.8	972.2		(0.8)%
Current liabilities			
388.4	460.3		(15.6)%
<hr/>			
<hr/>			
Working capital			
\$762.6	\$761.7		0.1%
Goodwill			
\$209.4	\$215.1		(2.6)%
Non-current deferred income taxes			
\$16.4	\$19.5		(15.9)%
Total debt			
\$385.6	\$419.4		(8.1)%
Total shareholders' equity			
\$1,098.8	\$1,115.2		(1.5)%
Total debt as a % of total capital			
26.0%		27.3%	
Book value per share			
\$16.65	\$16.94		(1.7)%

Cash and cash equivalents: Significant cash receipts in the first quarter of fiscal 2002 related to the sale of Harris' minority interest in its GE Harris Energy Systems, LLC joint venture of \$23.0 million and the sale of securities available for sale of \$17.5 million. These receipts were more than offset by a \$33.8 million reduction in debt and \$8.6 million paid for the acquisition of Hirschmann Multimedia Communications Network. Harris plans to use its cash and marketable securities for general corporate purposes in the future including marketing and research and development projects, acquisitions and repurchases of its common stock.

Credit arrangements: Harris has available syndicated credit facilities with various banks that provide for borrowings up to \$400 million. The credit facilities consist of a \$212.5 million 3-Year Credit Agreement, which expires in May of 2004 and a \$187.5 million 364-Day Credit

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

Agreement that expires in May of 2002. Interest rates on borrowings under these facilities and related fees are determined by a pricing matrix based upon Harris' long-term debt rating assigned by Standard and Poor's Ratings Group and Moody's Investors Service. Harris is not required to maintain compensating balances in connection with these agreements. At September 28, 2001 no amounts were borrowed under these facilities. The covenants contained in these facilities include, among others, maintenance of consolidated tangible net worth of not less than \$700 million

Table of Contents

(which amount is subject to increase), maintenance of a debt to earnings ratio, and a limit on total debt to \$800 million. Harris also has an effective shelf registration filed with the Securities and Exchange Commission, which provides for the issuance of debt securities of up to \$500 million.

Management currently believes that existing cash, funds generated from operations, sales of marketable securities, the credit facility, and access to the public and private debt markets will be sufficient to provide for Harris' anticipated requirements for working capital, capital expenditures, and any stock repurchases under the current repurchase program for the next twelve months.

Marketable securities: Marketable securities decreased from \$146.8 million as of June 29, 2001 to \$93.4 million as of September 28, 2001. The decrease was primarily due to Harris' sale of a portion of its holdings in Intersil Corporation and a reduction in the quoted market price of Intersil Corporation stock.

Working capital: Working capital remained relatively flat from \$761.7 million as of June 29, 2001 to \$762.6 million as of September 28, 2001. The \$10.2 million decrease in cash and cash equivalents and \$53.4 million decrease in marketable securities noted above were offset by a \$32.9 million reduction of short-term debt and a \$39.0 million reduction in other current liabilities. The decrease in current liabilities resulted primarily from a reduction in accounts payable on lower volumes and a reduction in accrued salaries and wages due to the timing of payroll and annual incentive payments in the first quarter of fiscal 2002.

Goodwill: Goodwill decreased from \$215.1 million as of June 29, 2001 to \$209.4 million as of September 28, 2001. The decrease was due primarily to the write-off of goodwill associated with Harris' minority interest in its GE Harris Energy Systems, LLC joint venture, which was sold during the first quarter of fiscal 2002. This decrease was partially offset by goodwill recorded as a result of the acquisition of Hirschmann Multimedia Communications Network. In determining the amount of goodwill associated with the Hirschmann Multimedia Communications Network acquisition, estimates were used pending a final allocation of the purchase price, which should be completed before the end of fiscal 2002. In determining the amount of purchase price allocated to intangibles from acquisitions, Harris uses established valuation techniques used in the communications technology industry, which include present value calculations of future cash flows.

Non-current deferred income taxes: The asset related to non-current deferred income taxes was \$19.5 million as of June 29, 2001 versus a \$16.4 million asset as of September 28, 2001.

Total debt and capitalization: Total debt decreased from \$419.4 million as of June 29, 2001, representing 27.3 percent of total capital (defined as the sum of total debt plus shareholders' equity) to \$385.6 million as of September 28, 2001, representing 26.0 percent of total capital.

Purchase of Common Stock for treasury: Harris used \$51.6 million to repurchase 1.8 million shares of its common stock in the first quarter of fiscal 2001. Harris did not repurchase any shares of its common stock in the first quarter of fiscal 2002. Harris' Board of Directors has approved a share repurchase program which authorizes the repurchase of up to 15 million shares through open market transactions, in negotiated block transactions or pursuant to tender offers. Harris still has a remaining authorization to repurchase an additional 1.7 million shares under this repurchase program.

Additions of plant and equipment: Additions of plant and equipment in the first quarter of fiscal 2002 were \$9.5 million versus \$13.9 million in the first quarter of fiscal 2001 with no single large items accounting for the reduction. Total additions for Harris in fiscal 2002 are expected to be approximately \$60 million.

Outlook

A good balance among Harris' government and commercial businesses allowed Harris to achieve most of its quarterly financial targets during very difficult economic and political conditions around the globe. The Government Communications segment's programs and the RF Communications segment's secure tactical radio products are performing well in an improving marketplace. We expect these businesses to keep growing and provide a positive impact on Harris' results over the foreseeable future. Both businesses are

Table of Contents

well positioned to support the war against terrorism. Harris also expects continued good performance from its Broadcast Communications segment with the rollout of digital equipment over the next several years.

Before September 11th, worldwide market conditions were weak for commercial telecommunications equipment. Since September 11th, markets appear to have worsened. This is unfavorably impacting Harris' Microwave Communications and Network Support segments' results and has added risk to Harris' fiscal 2002 sales and income. This risk will be increased if international markets do not improve early in calendar 2002. Start-up technology companies in which Harris has passive investments have also been impacted by these events. Although it is too early to reasonably estimate the impact, Harris anticipates that an impairment could be recognized before the end of fiscal 2002 in one or more of these investments.

While the Microwave Communications and Network Support segments have been adversely impacted by the weak market for commercial telecommunications equipment, the current environment is driving higher growth in our Government Communications and RF Communications segments. Additionally, we believe that long term, both Harris' Microwave Communications and Network Support segments are well positioned in their respective markets with excellent products, and are expected to respond quickly to improved economic conditions.

Forward-Looking Statements

This report contains forward-looking statements that reflect management's current expectations, assumptions, and estimates of future performance and economic conditions. Such statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements may be identified by their use of forward-looking terminology, such as believes, expects, may, should, would, will, intends, plans, estimates, anticipates, and similar words. Harris cautions investors that any forward-looking statements are subject to risks and uncertainties that may cause actual results and future trends to differ materially from those matters expressed in or implied by such forward-looking statements. Harris' consolidated results and the forward-looking statements could be affected by many factors, including:

- general economic conditions in the markets in which Harris operates;
- economic developments that have a particularly adverse effect on one or more of the markets served by Harris;
- continuing weakness in the telecom market;
- continuing challenges in the exit of its telecom switching business;
- stability of key markets for communications products, particularly Asia and Latin America;
- fluctuation in foreign currency exchange rates and the effectiveness of Harris' currency hedging program;
- fluctuations in the U.S. and worldwide defense and space budgets;
- effect of the consolidation in the U.S. defense industry on Harris' direct and indirect business with the U.S. Government;
- Harris' ability to receive government contract awards;
- continued development and market acceptance of new products, especially digital television broadcast products and broadband wireless access products;
- ability to be successful in the management and integration of acquired businesses;
- ability to achieve further product cost reductions and efficiencies in Harris' commercial manufacturing operations;
- ability to continue the liquidation of its marketable securities portfolio; and
- the successful resolution of patent infringement and other general litigation.

The forward-looking statements contained in this report are made as of the date hereof and Harris disclaims any intention or obligation to update or revise any forward-looking statements or to update the reasons why actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events, or otherwise.

Table of Contents**Item 3. Quantitative and Qualitative Disclosure About Market Risk.**

Harris, in the normal course of doing business, is exposed to the risks associated with foreign currency exchange rates, fluctuations in the market value of its equity securities available for sale, and changes in interest rates. Harris employs established policies and procedures governing the use of financial instruments to manage its exposure to such risks.

Harris uses foreign exchange contracts and options to hedge both balance sheet and off-balance sheet foreign currency commitments. Generally, these foreign exchange contracts offset foreign currency denominated inventory and purchase commitments from suppliers, accounts receivable from and future committed sales to customers, and intercompany loans. Management believes the use of foreign currency financial instruments should reduce the risks, which arise from doing business in international markets. Contracts are generally for one year or less. At September 28, 2001, Harris had open foreign exchange contracts with a notional amount of \$96.8 million, of which \$30.6 million were classified as cash flow hedges and \$66.2 million were classified as fair value hedges. This compares to total foreign exchange contracts with a notional amount of \$43.0 million as of June 29, 2001, of which \$6.3 million were classified as cash flow hedges and \$36.7 million were classified as fair value hedges.

More specifically, the foreign exchange contracts classified as cash flow hedges as of September 28, 2001 are primarily being used to hedge currency exposures from cash flows anticipated from two long-term contracts in the Government Communications segment with customers in Great Britain. The customer pays in Pounds Sterling (GBP) and Harris has payments to local suppliers that are also in GBP. Harris hedged the forecasted sales and vendor payments denominated in GBP to maintain its anticipated profit margins in U.S. dollars. Harris also sells microwave radio products and services to certain international customers that pay in Euros for sales in Europe, Africa and Asia. Harris also purchases microwave radio products for resale in Europe. Harris pays the vendor of these products in Euros. Harris had hedged the anticipated sales and anticipated vendor payments that will be denominated in Euros to maintain its anticipated profit margins in U.S. dollars. As of September 28, 2001, Harris estimated that a total \$0.2 million pretax loss would be reclassified into earnings from comprehensive income within the next twelve months related to these transactions. The net gain or loss included in Harris' earnings for the first quarter of fiscal 2002 and fiscal 2001 representing the amount of fair value and cash flow hedges' ineffectiveness was not material. No amounts were recognized in Harris' earnings for the first quarter of fiscal 2002 and fiscal 2001 related to the component of the derivatives instruments' gain or loss excluded from the assessment of hedge effectiveness. In addition, no amounts were recognized in Harris' earnings for the first quarter of fiscal 2002 and fiscal 2001 related to hedged firm commitments that no longer qualify as fair value hedges. No material reclassification of gains and losses into earnings from comprehensive income is expected to result from transactions or events related to commitments to customers or suppliers within the next twelve months. All of these derivatives were recorded at their fair value on the balance sheet as of September 28, 2001 in accordance with FAS 133.

Factors that could impact the effectiveness of Harris' hedging programs include accuracy of sales estimates, volatility of currency markets and the cost and availability of hedging instruments. A 10 percent adverse change in currency exchange rates for Harris' foreign currency derivatives held at September 28, 2001 would have an impact of approximately \$9.3 million on the fair value of such instruments. This quantification of exposure to the market risk associated with foreign exchange financial instruments does not take into account the offsetting impact of changes in the fair value of Harris' foreign denominated assets, liabilities, and firm commitments.

Harris also maintains a portfolio of marketable equity securities available for sale. These investments result from the retained interest in sold or spun-off businesses and the investment into start-up companies that have technology or products that are of interest to Harris. The fair market value of these securities at September 28, 2001 was \$93.4 million, compared to \$146.8 million at June 29, 2001. This decrease was primarily due to the sale of some of these investments in the first quarter of fiscal 2002 and a decrease in these securities' quoted market prices. The corresponding unrealized gain is included as a component of shareholders' equity. These investments have historically had higher volatility than most market indices. A 10 percent adverse change in the quoted market price of marketable equity securities would have an impact of approximately \$9.3 million on the fair market value of these securities.

Harris utilizes option contracts in the form of cashless collars to hedge anticipated cash flows from the sale of marketable securities. Contracts are generally one year or less. At September 28, 2001, Harris had open option contracts for 825,000 shares of Intersil Corporation stock at a weighted average strike price of \$32.87, which compares to 850,000 shares at a weighted average strike price of \$32.35 as of June 29, 2001. All of these collars were classified as cash flow hedges and recorded at their fair value on the balance sheet in accordance with FAS 133. The fair market value of these collars reflected in other assets on the condensed consolidated balance sheet was \$4.1 million at September 28, 2001 and \$1.8 million at June 29, 2001. Factors that could impact the effectiveness of Harris' hedging programs include accuracy of cash flow estimates, volatility of security markets, and the cost and availability of hedging instruments. A 10 percent adverse change in the quoted market price of marketable equity securities would have an impact of approximately \$1.4 million on the fair value of such instruments.

Harris utilizes a balanced mix of debt maturities along with both fixed-rate and variable-rate debt to manage its exposures to changes in interest rates. Harris does not expect changes in interest rates to have a material effect on income or cash flows in fiscal 2002, although there can be no assurances that interest rates will not significantly change.

Table of Contents

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits:

- (10) Material Contracts: (i) Stock Option Agreement Terms and Conditions (as of 8/24/01) for grants under the Harris Corporation 2000 Stock Incentive Plan.* (ii) Executive Performance Share Award Terms and Conditions (as of 8/24/01) for grants under the Harris Corporation 2000 Stock Incentive Plan.* (iii) Harris Corporation Retirement Plan (amended and restated effective April 1, 2001)*
 - (12) Ratio of Earnings to Fixed Charges.** Previously filed with the Company's Form 10-Q Quarterly Report for the fiscal quarter ended September 28, 2001.
- (b) Reports on Form 8-K. No Current Reports on Form 8-K were filed during the fiscal quarter ended September 28, 2001. Items 1, 2, 3, 4, and 5 of Part II are not applicable and have been omitted.

SIGNATURE

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

HARRIS CORPORATION

(Registrant)

By: /s/Bryan R. Roub

Date: June 3, 2002
Bryan R. Roub
Senior Vice President & Chief
Financial Officer (principal financial officer
and duly authorized officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.
Under Reg.
S-K, Item 601

Description

(10) Material Contracts:

- (i) Stock Option Agreement Terms and Conditions (as of 8/24/01) for grants under the Harris Corporation 2000 Stock Incentive Plan.*
- (ii) Executive Performance Share Award Terms and Conditions (as of 8/24/01) for grants under the Harris Corporation 2000 Stock Incentive Plan.*
- (iii) Harris Corporation Retirement Plan (amended and restated effective April 1, 2001).*

(12) Ratio of Earnings to Fixed Charges*

* Previously filed with the Company's Form 10-Q Quarterly Report for the fiscal quarter ended September 28, 2001.