HARRIS CORP /DE/
Form 10-Q
February 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 30, 2016
or
o 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)

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. þ Yes p 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). þ Yes p 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	þ	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). p Yes þ No
The number of shares outstanding of the registrant's common stock as of January 27, 2017 was 124,461,661 shares.

HARRIS CORPORATION
FORM 10-Q
For the Quarter Ended December 30, 2016
INDEX

This Quarterly Report on Form 10-Q contains trademarks, service marks and registered marks of Harris Corporation and its subsidiaries.

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, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions, except per share amounts)			
Revenue from product sales and services	$1,700	$1,748	$3,378	$3,458
Cost of product sales and services	(1,138)	(1,203)	(2,258)	(2,347)
Engineering, selling and administrative expenses	(276)	(217)	(572)	(525)
Non-operating income	1	—	2	1
Interest income	1	—	1	1
Interest expense	(44)	(46)	(88)	(93)
Income from continuing operations before income taxes	244	282	463	495
Income taxes	(76)	(85)	(139)	(152)
Income from continuing operations	168	197	324	343
Discontinued operations, net of income taxes	9	(349)	13	(347)
Net income (loss)	$177	$(152)	$337	$(4)
Net income (loss) per common share				
Basic				
Continuing operations	$1.35	$1.59	$2.60	$2.77
Discontinued operations	0.07	(2.82)	0.11	(2.81)
	$1.42	$(1.23)	$2.71	$(0.04)
Diluted				
Continuing operations	$1.33	$1.58	$2.57	$2.75
Discontinued operations	0.07	(2.80)	0.11	(2.78)
	$1.40	$(1.22)	$2.68	$(0.03)
Cash dividends paid per common share	$0.53	$0.50	$1.06	$1.00
Basic weighted average common shares outstanding	123.7	123.8	123.8	123.6
Diluted weighted average common shares outstanding	125.4	124.9	125.5	124.7

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

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

	Quarter Ended		Two Quarters Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions)			
Net income (loss)	$177	$(152)	$337	$(4)
Other comprehensive loss:				
Foreign currency translation loss, net of income taxes	(26)	(15)	(29)	(47)
Net unrealized gain (loss) on hedging derivatives, net of income taxes	(1)	1	(1)	1
Net unrecognized gain (loss) on postretirement obligations, net of income taxes	1	(4)	2	(4)
Other comprehensive loss, net of income taxes	(26)	(18)	(28)	(50)
Total comprehensive income (loss)	$151	$(170)	$309	$(54)

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

HARRIS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET
(Unaudited)

	December 30, 2016		July 1, 2016	
	(In millions, except shares)			
Assets				
Current Assets				
Cash and cash equivalents	$	361	$	487
Receivables	762		871	
Inventories	1,001		950	
Income taxes receivable	11		58	
Other current assets	133		130	
Current assets of discontinued operations	344		112	
Total current assets	2,612		2,608	
Non-current Assets				
Property, plant and equipment	908		943	
Goodwill	5,848		5,839	
Other intangible assets	1,437		1,518	
Non-current deferred income taxes	550		552	
Other non-current assets	263		254	
Non-current assets of discontinued operations	—		279	
Total non-current assets	9,006		9,385	
	$	11,618	$	11,993
Liabilities and Equity				
Current Liabilities				
Short-term debt	$	183	$	15
Accounts payable	540		591	
Compensation and benefits	130		166	
Other accrued items	340		400	
Advance payments and unearned income	260		314	
Income taxes payable	15		6	
Current portion of long-term debt	130		382	
Current liabilities of discontinued operations	67		91	
Total current liabilities	1,665		1,965	
Non-current Liabilities				
Defined benefit plans	2,144		2,296	
Long-term debt, net	4,087		4,120	
Non-current deferred income taxes	4		4	

Other long-term liabilities	560		525	
Non-current liabilities of discontinued operations	—		26	
Total non-current liabilities	6,795		6,971	
Equity				
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 124,277,167 shares at December 30, 2016 and 124,643,407 shares at July 1, 2016	124		125	
Other capital	2,061		2,096	
Retained earnings	1,495		1,330	
Accumulated other comprehensive loss	(523	)	(495	)
Total shareholders’ equity	3,157		3,056	
Noncontrolling interests	1		1	
Total equity	3,158		3,057	
	$ 11,618		$ 11,993	

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

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

	Two Quarters Ended	
	December 30, 2016	January 1, 2016
	(In millions)	
Operating Activities		
Net income (loss)	$337	$(4)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	101	114
Amortization of intangible assets from Exelis Inc. acquisition	66	66
Share-based compensation	22	19
Qualified pension plan contributions	(103)	(97)
Pension income	(49)	(12)
Net liability reduction for certain post-employment benefit plans	—	(101)
Impairment of goodwill and other assets	—	367
Adjustment to loss on sales of businesses, net	—	21
(Increase) decrease in:		
Accounts receivable	125	220
Inventories	(50)	(91)
Increase (decrease) in:		
Accounts payable and accrued expenses	(132)	(128)
Advance payments and unearned income	(58)	(59)
Income taxes	70	31
Other	(34)	41
Net cash provided by operating activities	295	387
Investing Activities		
Net additions of property, plant and equipment	(49)	(49)
Adjustment to proceeds from sale of business	(25)	—
Net cash used in investing activities	(74)	(49)
Financing Activities		
Proceeds from borrowings	185	209
Repayments of borrowings	(300)	(395)
Proceeds from exercises of employee stock options	27	33
Repurchases of common stock	(100)	—
Cash dividends	(134)	(127)
Other financing activities	(19)	(15)
Net cash used in financing activities	(341)	(295)
Effect of exchange rate changes on cash and cash equivalents	(6)	(13)
Net increase (decrease) in cash and cash equivalents	(126)	30
Cash and cash equivalents, beginning of year	487	481
Cash and cash equivalents, end of quarter	$361	$511

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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note A — Significant Accounting Policies and Recent Accounting Standards

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements (Unaudited) include the accounts of Harris Corporation and its consolidated subsidiaries. As used in these Notes to Condensed Consolidated Financial Statements (Unaudited) (these "Notes"), the terms "Harris," "Company," "we," "our" and "us" refer to Harris Corporation and its consolid subsidiaries. Intracompany transactions and accounts have been eliminated in consolidation. The accompanying Condensed Consolidated Financial Statements (Unaudited) 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 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 our financial position, results of operations and cash flows for the periods presented therein. The results for the second quarter and first two quarters of fiscal 2017 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, 2016 has been derived from our audited financial statements, but does not include all of the information and footnotes required by GAAP for annual financial statements. We provide complete, audited financial statements in our Annual Report on Form 10-K, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q (this "Report") should be read in conjunction with the Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended July 1, 2016 (our "Fiscal 2016 Form 10-K").

In the second quarter of fiscal 2017, we entered into a definitive agreement to sell our Harris CapRock Communications commercial business ("CapRock"). CapRock was formerly part of our Critical Networks segment and is reported as discontinued operations in this Report. As a result, our historical financial results have been restated to account for CapRock as discontinued operations for all periods presented in this Report. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes relate solely to our continuing operations.

On January 1, 2017, we completed the sale of CapRock. See Note S — Subsequent Events in these Notes for additional information.

See Note B — Discontinued Operations in these Notes for additional information regarding discontinued operations.

Amounts contained in this Report may not always add to totals due to rounding.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes and related disclosures. These estimates and assumptions are based on experience and other information available prior to issuance of the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes. Materially different results can occur as circumstances change and additional information becomes known.

Restructuring and Integration Charges

We record restructuring charges for sales or terminations of product lines, closures or relocations of business activities, changes in management structure, and fundamental reorganizations that affect the nature and focus of operations. Such changes include termination benefits, contract termination costs and costs to consolidate facilities or relocate employees. We record these charges at their fair value when incurred. In cases where employees are required to render service until they are terminated in order to receive the termination benefits and will be retained beyond the minimum retention period, we record the expense ratably over the future service period.

In fiscal 2016, we recorded restructuring charges of $143 million for workforce reductions and integration charges as a result of our acquisition of Exelis in the fourth quarter of fiscal 2015, including consolidation of facilties and other costs. These charges are included as a component of the "Cost of product sales and services" and "Engineering, selling and administrative expenses" line items in our Consolidated Statement of Income in our Fiscal 2016 Form 10-K.

Liabilities associated with these and previous restructuring actions were $44 million at December 30, 2016 and $53 million at July 1, 2016. The majority of the remaining liabilities as of December 30, 2016 will be paid within the next twelve months.

Adoption of New Accounting Standards

In the first quarter of fiscal 2017, we adopted an accounting standard issued by the Financial Accounting Standards Board (“FASB”) that changed the accounting for certain aspects of stock options and other share-based compensation. This accounting standard requires companies to recognize excess tax benefits or expenses related to the vesting or settlement of employee share-based awards (i.e., the difference between the actual tax benefit realized and the tax benefit initially recognized for financial reporting purposes) as income tax benefit or expense in our Condensed Consolidated Statement of Income (Unaudited). Prior to adoption of this accounting standard, we were required to recognize these amounts directly in our Condensed Consolidated Balance Sheet (Unaudited) as additional paid-in capital. This accounting standard also requires classification of cash flows resulting from excess tax benefits or expenses related to employee share-based awards as cash flows from operating activities in our Condensed Consolidated Statement of Cash Flows (Unaudited). Prior to adoption of this accounting standard, we classified cash flows resulting from excess tax benefits or expenses related to employee share-based awards as cash flows from financing activities in our Condensed Consolidated Statement of Cash Flows (Unaudited). We applied all significant changes required by this accounting standard on a prospective basis from the beginning of fiscal 2017.

Adopting this accounting standard did not have a material impact on our financial position, results of operations or cash flows, except as follows:

- We recognized $3 million ($.02 per diluted share) and $13 million ($.10 per diluted share) of income tax benefit in our Condensed Consolidated Statement of Income (Unaudited) for the quarter and two quarters ended December 30, 2016, respectively; and
- We classified $13 million of cash flows resulting from excess tax benefits related to employee share-based awards as net cash provided by operating activities in our Condensed Consolidated Statement of Cash Flows (Unaudited) for the two quarters ended December 30, 2016.

Accounting Standards Issued But Not Yet Effective

In May 2014, the FASB issued a comprehensive new revenue recognition standard that supersedes nearly all revenue recognition guidance under GAAP and International Financial Reporting Standards and supersedes some cost guidance for construction-type and production-type contracts. The guidance in this standard is principles-based, and consequently, entities will be required to use more judgment and make more estimates than under prior guidance, including identifying contract performance obligations, estimating variable consideration to include in the contract price and allocating the transaction price to separate performance obligations. The guidance in this standard is applicable to all contracts with customers, regardless of industry-specific or transaction-specific fact patterns. Additionally, this standard provides guidance for transactions that were not previously addressed comprehensively (e.g., service revenue, contract modifications and licenses of intellectual property) and modifies guidance for multiple-element arrangements. The core principle of this standard is that entities should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. To help financial statement users better understand the nature, amount, timing and potential uncertainty of the revenue that is recognized, this standard requires significantly more interim and annual disclosures. This standard allows for either “full retrospective” adoption (application to all periods presented) or “modified retrospective” adoption (application to only the most current period presented in the financial statements, as well as certain additional required footnote disclosures). In August 2015, the FASB issued an accounting standards update that defers the effective date of this standard by one year, while permitting entities to elect to adopt one year earlier than the original effective date. As a result, this standard is now effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2017, which for us is our fiscal 2019. We are currently evaluating the impact the new revenue recognition standard will have on our financial position, results of operations and cash flows. As the new standard supersedes nearly all revenue recognition guidance applicable to us under GAAP, it could impact revenue and cost recognition across all of our business segments as well as related business processes and information technology systems. As a result, our evaluation of the impact of the new revenue recognition standard will continue over future periods.

In February 2016, the FASB issued a new lease standard that supersedes existing lease guidance under GAAP. This standard requires lessees to record most leases on their balance sheets but recognize expenses on their income statements in a manner similar to existing lease guidance under GAAP. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with the option to use certain relief. Full retrospective application is prohibited. This standard is effective for fiscal years, and interim reporting periods within those years, beginning after December 15, 2018, which for us is our fiscal 2020. We are currently evaluating the impact this standard will have on our financial position, results of operations and cash flows.

Note B — Discontinued Operations

The major components of the discontinued operations in our Condensed Consolidated Statement of Income (Unaudited) include the following:

	Quarter Ended		Two Quarters Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions)			
Revenue from product sales and services	$69	$ 95	$145	$ 196
Cost of product sales and services	(53)	(77)	(109)	(154)
Engineering, selling and administrative expenses	(11)	(22)	(26)	(43)
Impairment of goodwill and other assets	—	(367)	—	(367)
Non-operating income	7	—	7	—
Income (loss) before income taxes	12	(371)	17	(368)
Loss on sale of discontinued operation	—	(21)	—	(21)
Income tax (expense) benefit	(3)	43	(4)	42
Discontinued operations, net of income taxes	$9	$ (349)	$13	$ (347)

The carrying amounts of the major classes of assets and liabilities included in discontinued operations in our Condensed Consolidated Balance Sheet (Unaudited) as of December 30, 2016 and July 1, 2016, are as follows:

	December 30, 2016 (1)	July 1, 2016
	(In millions)	
Assets		
Receivables	$ 50	$ 67
Inventories	12	14
Property, plant and equipment	69	—
Goodwill	132	—
Other intangible assets	22	—
Other current assets	59	31
Current assets of discontinued operations	$ 344	$ 112
Property, plant and equipment	$ —	$ 73
Goodwill	—	136

Other intangible assets	—	24
Other non-current assets	—	46
Non-current assets of discontinued operations	$ —	$ 279
Liabilities		
Accounts payable	$ 15	$ 11
Post-closing adjustment liability	2	27
Other current liabilities	50	53
Current liabilities of discontinued operations	$ 67	$ 91
Non-current liabilities of discontinued operations	$ —	$ 26

(1) The assets and liabilities of discontinued operations held for sale are classified as current in our Condensed Consolidated Balance Sheet (Unaudited) as of December 30, 2016 because it was probable the sale would occur and proceeds

would be
collected
within one
year.

Cumulative foreign currency translation loss, net of taxes, associated with the assets and liabilities of discontinued operations held for sale was $63 million and $67 million as of December 30, 2016 and July 1, 2016, respectively.

Depreciation and amortization, capital expenditures, and significant noncash items of discontinued operations for all periods presented in our Condensed Consolidated Statement of Income (Unaudited) include the following:

	Quarter Ended		Two Quarters Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions)			
Depreciation and amortization	$3	$ 12	$ 11	$ 25
Capital expenditures	2	4	4	8
Significant noncash items:				
Impairment of goodwill and other assets	—	367	—	367

CapRock

On November 1, 2016, we entered into a definitive agreement to sell our CapRock business to SpeedCast International Ltd. ("SpeedCast") for $425 million in cash, subject to customary adjustments (including a post-closing working capital adjustment). CapRock, which was formerly part of our Critical Networks segment, provided wireless, terrestrial and satellite communications services to energy and maritime customers. We consider the CapRock divestiture to be a strategic shift because we are exiting the energy and maritime industry. We will provide various transition services to SpeedCast for a period of up to 12 months following the close of the transaction pursuant to a separate agreement.

On January 1, 2017, following the close of the second quarter of fiscal 2017, we completed the sale of CapRock to SpeedCast. We subsequently used $248 million of the cash proceeds from the CapRock divestiture to repay principal on our term loans ($215 million of voluntary prepayments of principal and $33 million of scheduled repayments).

Broadcast Communications

On February 4, 2013, we completed the sale of Broadcast Communications to an affiliate of The Gores Group, LLC (the "Buyer") pursuant to a definitive Asset Sale Agreement entered into December 5, 2012 for $225 million, including $160 million in cash, subject to customary adjustments (including a post-closing working capital adjustment), a $15 million subordinated promissory note (which was collected in fiscal 2014) and an earnout of up to $50 million based on future performance. Broadcast Communications was recorded as discontinued operations in connection with the sale.

Based on a dispute between us and the Buyer over the amount of the post-closing working capital adjustment, we and the Buyer previously appointed a nationally recognized accounting firm to render a final determination of such dispute. On January 29, 2016, the accounting firm rendered its final determination as to the disputed items, in which it concluded substantially in our favor and partly in the Buyer's favor. As a result of such determination, we recorded a loss in discontinued operations in the second quarter of fiscal 2016 of $21 million ($17 million after-tax or $0.14 per diluted share).

Note C — Stock Options and Other Share-Based Compensation

During the two quarters ended December 30, 2016, we had options or other share-based compensation outstanding under two shareholder-approved stock incentive plans ("SIPs"), the Harris Corporation 2005 Equity Incentive Plan (As Amended and Restated Effective August 27, 2010) and the Harris Corporation 2015 Equity Incentive Plan (the "2015 EIP"). Grants of share-based awards after October 23, 2015 were made under our 2015 EIP. We believe that share-based awards more closely align the interests of participants 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 was $11 million and $22 million for the quarter and two quarters ended December 30, 2016, respectively. The compensation cost related to our share-based awards that was charged against income was $9 million and $19 million for the quarter and two quarters ended January 1, 2016, respectively.

Grants to participants under our 2015 EIP during the second quarter ended December 30, 2016 consisted of 19,750 stock options, 13,665 restricted share awards and restricted share unit awards, and 12,820 performance unit awards. Grants to participants under our 2015 EIP during the two quarters ended December 30, 2016 consisted of 1,230,480 stock options, 81,860 restricted share awards and restricted share unit awards, and 261,275 performance unit awards.

The fair value as of the grant date of each stock option award was determined using the Black-Scholes-Merton option-pricing model, which used the following assumptions: expected dividend yield of 2.36 percent; expected volatility of 21.78 percent; risk-free interest rates averaging 1.23 percent; and expected term in years of 5.03. The fair value as of the grant date of each restricted share award was based on the closing price of our common stock on the grant date. The fair value as of the grant date of each performance unit award was determined based on the fair value from a multifactor Monte Carlo valuation model that simulates our stock price and total shareholder return relative to companies in the Standard & Poor's 500, less a discount to reflect the delay in payments of cash dividend-equivalents that are made only upon vesting.

Note D — Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss are summarized below:

	December 30, 2016 (1)	July 1, 2016 (1)
	(In millions)	
Foreign currency translation, net of income taxes of $30 million and $29 million at December 30, 2016 and July 1, 2016, respectively	$(160)	$(131)
Net unrealized loss on hedging derivatives, net of income taxes of $11 million at December 30, 2016 and July 1, 2016	(19)	(18)

Unrecognized postretirement obligations, net of income taxes of $213 million at December 30, 2016 and July 1, 2016	(334)	(346)
	$(523)	$(495)

(1) Reclassifications out of accumulated other comprehensive loss to earnings were not material for the two quarters ended December 30, 2016 or January 1, 2016.

Note E — Receivables

Receivables are summarized below:

	December 30, 2016	July 1, 2016
	(In millions)	
Accounts receivable	$469	$526
Unbilled costs and accrued earnings on cost-plus contracts	297	346
	766	872
Less allowances for collection losses	(4)	(1)
	$762	$871

Note F — Inventories

Inventories are summarized below:

	December 30, 2016	July 1, 2016
	(In millions)	
Unbilled costs and accrued earnings on fixed-price contracts	$566	$ 511
Finished products	108	128
Work in process	129	119
Raw materials and supplies	198	192
	$1,001	$ 950

Unbilled costs and accrued earnings on fixed-price contracts were net of progress payments of $98 million at December 30, 2016 and $91 million at July 1, 2016.

Note G — Property, Plant and Equipment

Property, plant and equipment are summarized below:

	December 30, 2016	July 1, 2016
	(In millions)	
Land	$43	$43
Software capitalized for internal use	128	115
Buildings	618	605
Machinery and equipment	1,259	1,220
	2,048	1,983
Less accumulated depreciation and amortization	(1,140)	(1,040)
	$908	$943

Depreciation and amortization expense related to property, plant and equipment was $36 million and $76 million for the quarter and two quarters ended December 30, 2016, respectively. Depreciation and amortization expense related to property, plant and equipment was $39 million and $79 million for the quarter and two quarters ended January 1, 2016, respectively.

Note H — Goodwill

Goodwill by business segment, and changes in the carrying amount of goodwill for the two quarters ended December 30, 2016 by business segment, were as follows:

	Communication Systems	Space and Intelligence Systems	Electronic Systems	Critical Networks (1)	Total
	(In millions)				
Balance at July 1, 2016 — As reported	$781	$ 1,478	$ 1,650	$ 2,066	$5,975
Decrease from reclassification to assets of discontinued operations (1)	—	—	—	(136)	(136)
Balance at July 1, 2016 — After reclassification	$781	$ 1,478	$ 1,650	$ 1,930	$5,839
Currency translation adjustments	1	(5)	(3)	(5)	(12)
Other	2	2	4	13	21
Balance at December 30, 2016	$784	$ 1,475	$ 1,651	$ 1,938	$5,848

(1) In the second quarter of fiscal 2017, we entered into a definitive agreement to sell CapRock, which was formerly part of our Critical Networks segment and is reported as discontinued operations in this Report. As a result, our goodwill balance as of July 1, 2016 has been adjusted by $136 million in order to include CapRock goodwill within our separate presentation of assets and liabilities of discontinued operations in our Condensed Consolidated Balance Sheet (Unaudited) in accordance with GAAP. The carrying amount of CapRock goodwill is included as a component of the "Current assets of discontinued operations" or "Non-current assets of discontinued operations" lines in our Condensed Consolidated Balance Sheet (Unaudited). See Note B — Discontinued Operations in these Notes for additional information.

Note I — Accrued Warranties

Changes in our liability for standard product warranties, which is included as a component of the "Other accrued items" and "Other long-term liabilities" line items in our Condensed Consolidated Balance Sheet (Unaudited), during the two quarters ended December 30, 2016 were as follows:

	(In millions)
Balance at July 1, 2016	$ 32
Warranty provision for sales	8

Settlements	(9)
Other, including adjustments for foreign currency translation	(2)
Balance at December 30, 2016	$ 29

We also sell extended product warranties and recognize revenue from these arrangements over the warranty period. Costs of warranty services under these arrangements are recognized as incurred. Deferred revenue associated with extended product warranties was $29 million at December 30, 2016 and $37 million at July 1, 2016 and is included as a component of the “Advance payments and unearned income” and “Other long-term liabilities” line items in our Condensed Consolidated Balance Sheet (Unaudited).

Note J — Postretirement Benefit Plans

The following tables provide the components of our net periodic benefit income for our defined benefit plans, including defined benefit pension plans and other postretirement defined benefit plans:

	Quarter Ended December 30, 2016			Two Quarters Ended December 30, 2016		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
	(In millions)					
Net periodic benefit income						
Service cost	$14	$—	$14	$29	$—	$29
Interest cost	46	2	48	92	4	96
Expected return on plan assets	(85)	(4)	(89)	(170)	(8)	(178)
Amortization of net actuarial loss	—	—	—	—	—	—
Amortization of prior service cost	—	—	—	—	—	—
Net periodic benefit income	$(25)	$(2)	$(27)	$(49)	$(4)	$(53)
Effect of curtailments or settlements	—	—	—	—	—	—
Total net	$(25)	$(2)	$(27)	$(49)	$(4)	$(53)

periodic benefit income

	Quarter Ended January 1, 2016			Two Quarters Ended January 1, 2016		
	Pension	Other Benefits	Total	Pension	Other Benefits	Total
	(In millions)					
Net periodic benefit income						
Service cost	$20	$2	$22	$38	$3	$41
Interest cost	61	3	64	123	7	130
Expected return on plan assets	(85)	(4)	(89)	(171)	(9)	(180)
Amortization of net actuarial loss	—	—	—	—	2	2
Amortization of prior service cost	—	(4)	(4)	—	(7)	(7)
Net periodic benefit income	$(4)	$(3)	$(7)	$(10)	$(4)	$(14)
Effect of curtailments or settlements (1)	—	(121)	(121)	—	(121)	(121)
Total net periodic benefit income	$(4)	$(124)	$(128)	$(10)	$(125)	$(135)

(1) We discontinued certain significantly underfunded post-employment benefit plans

effective December 31, 2015. Under GAAP, this resulted in a negative plan amendment and curtailment during the quarter ended January 1, 2016, a settlement as of December 31, 2015, and a net liability reduction of $101 million.

Starting in fiscal 2017, we changed the approach used to determine the service and interest components of net periodic benefit cost of the U.S. defined benefit plans. The new estimation approach discounts the individual expected cash flows underlying the service cost and interest cost by applying the applicable spot rates derived from the yield curve used to discount the cash flows in determining the benefit obligation. Historically, the service and interest cost components were determined by a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period. This change resulted in approximately $23 million of lower service and interest costs for the U.S. defined benefit plans in the two quarters ended December 30, 2016 compared with the single weighted-average discount method. See Note 14: “Pension and Other Postretirement Benefits” in our Notes to Consolidated Financial Statements in our Fiscal 2016 Form 10-K for additional information.

We contributed $103 million and $97 million to our qualified defined benefit pension plans during the two quarters ended December 30, 2016 and January 1, 2016, respectively. We currently anticipate making additional contributions to our qualified defined benefit pension plans of approximately $485 million during the remainder of fiscal 2017, including approximately $400 million of voluntary contributions. See Note S — Subsequent Events in these Notes for additional information.

The U.S. Salaried Retirement Plan (“U.S. SRP”) is our largest defined benefit pension plan, with assets valued at $3.8 billion and a projected benefit obligation of $5.9 billion as of July 1, 2016. Effective December 31, 2016, future benefit accruals under the U.S. SRP were frozen and replaced with a 1% cash balance defined benefit plan.

Note K — Income From Continuing Operations Per Common Share

The computations of income from continuing operations per common share are as follows:

	Quarter Ended		Two Quarters Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions, except per share amounts)			
Income from continuing operations	$168	$ 197	$324	$ 343
Adjustments for participating securities outstanding	(1)	—	(2)	—
Income from continuing operations used in per basic and diluted common share calculations (A)	$167	$ 197	$322	$ 343
Basic weighted average common shares outstanding (B)	123.7	123.8	123.8	123.6
Impact of dilutive share-based awards	1.7	1.1	1.7	1.1
Diluted weighted average common shares outstanding (C)	125.4	124.9	125.5	124.7
Income from continuing operations per basic common share (A)/(B)	$1.35	$ 1.59	$2.60	$ 2.77
Income from continuing operations per diluted common share (A)/(C)	$1.33	$ 1.58	$2.57	$ 2.75

Potential dilutive common shares primarily consist of employee stock options and performance unit awards. Employee stock options to purchase approximately 1,200,708 and 1,482,261 shares of our common stock were outstanding at December 30, 2016 and January 1, 2016, 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.

Note L — Income Taxes

Our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) was 31 percent in the quarter ended December 30, 2016 compared with 30 percent in the quarter ended January 1, 2016. In the quarter ended December 30, 2016, our effective tax rate was not impacted by any significant discrete item. In the quarter ended January 1, 2016, our effective tax rate benefited from the effect of legislation enacted in that quarter that restored the U.S. Federal income tax credit for qualifying research and development (“R&D”) expenses for calendar year 2015 and made the credit permanent for periods following December 31, 2015. This resulted in a benefit of approximately $12 million in calculating our effective tax rate in the quarter ended January 1, 2016. Approximately 40 percent of this benefit related to R&D expenses in the second half of fiscal 2015 and the remainder related to R&D expenses in fiscal 2016. Additionally, in the quarter ended January 1, 2016, our effective tax rate benefited from the settlement of a state tax issue for an amount lower than the previously recorded estimate and several differences between GAAP and tax accounting for investments.

Our effective tax rate was 30 percent in the two quarters ended December 30, 2016 compared with 31 percent in the two quarters ended January 1, 2016. In the two quarters ended December 30, 2016, our effective tax rate was impacted by the adoption of the accounting standard issued by the FASB that changed the accounting for certain aspects of stock options and other share-based compensation, as discussed in Note A — Significant Accounting Policies and Recent Accounting Standards in these Notes, and by several differences in GAAP and tax accounting related to investments. In the two quarters ended January 1, 2016, our effective tax rate benefited from the discrete items noted above regarding the quarter ended January 1, 2016.

Note M — Impairment of Goodwill and Other Assets

We test our goodwill and other indefinite-lived intangible assets for impairment annually, or under certain circumstances, more frequently, such as when events or circumstances indicate there may be impairment. Indications of potential impairment of goodwill related to CapRock (which is reported in discontinued operations) were present at the end of the quarter ended January 1, 2016 due to the downturn in the energy market and its impact on customer operations, which also resulted in a decrease in the fiscal 2016 outlook for CapRock. Consequently, in connection with the preparation of our financial statements for the quarter ended January 1, 2016, we performed an interim test of CapRock's goodwill for impairment as of the end of the quarter ended January 1, 2016.

To test for potential impairment of goodwill related to CapRock, we prepared an estimate of the fair value of the reporting unit based on projected discounted cash flows. The carrying value of the CapRock reporting unit at the end of the quarter ended January 1, 2016 exceeded its estimated fair value, and accordingly, we allocated the estimated fair value to the assets and liabilities of the CapRock reporting unit to estimate the implied fair value of goodwill.

In conjunction with the above-described impairment test, we also conducted a test for impairment of other assets related to CapRock, including amortizable intangible assets and fixed assets, and impairment of these assets was considered prior to the conclusion of the goodwill impairment test. The estimated fair value of these other assets related to CapRock was determined based, in part, on an analysis of projected cash flows.

As a result of these impairment tests, we concluded that goodwill and other assets related to CapRock were impaired as of January 1, 2016, and we recorded a non-cash impairment charge of $367 million, of which $290 million related to goodwill, in the quarter ended January 1, 2016. Most of the $367 million impairment charge was not deductible for tax purposes.

Note N — 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 using the best information available in the circumstances.

The following table presents the fair value hierarchy of our assets and liabilities measured at fair value on a recurring basis (at least annually) as of December 30, 2016:

	Level 1	Level 2	Level 3	Total
	(In millions)			
Assets				
Deferred compensation plan investments: (1)				
Corporate-owned life	$ —	$ 18	$ —	$ 18

insurance				
Stock fund	53	—	—	53
Equity security	47	—	—	47
Liabilities				
Deferred compensation plans (2)	55	81	—	136

(1) Represents investments held in a "Rabbi Trust" associated with our non-qualified deferred compensation plans, which we include in the "Other current assets" and "Other non-current assets" line items in our Condensed Consolidated Balance Sheet (Unaudited).

(2) 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 our 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.

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

	December 30, 2016		July 1, 2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In millions)			
Long-term debt (including current portion) (1)	$4,217	$4,424	$4,502	$4,873

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

Note O — Derivative Instruments and Hedging Activities

In the normal course of 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 our Condensed Consolidated Balance Sheet (Unaudited) at fair value. We do not hold or issue derivatives for speculative purposes.

At December 30, 2016, we had open foreign currency forward contracts with an aggregate notional amount of $52 million, of which $7 million were classified as fair value hedges and $45 million were classified as cash flow hedges. This compares with open foreign currency forward contracts with an aggregate notional amount of $53 million at July 1, 2016, all of which were classified as fair value hedges. At December 30, 2016, contract expiration dates ranged from 5 days to approximately 18 months with a weighted average contract life of 9 months.

Fair Value Hedges

As of December 30, 2016, we had outstanding foreign currency forward contracts denominated in the Australian Dollar, Canadian Dollar and British Pound to hedge certain balance sheet items. The net gains or losses on foreign currency forward contracts designated as fair value hedges were not material in the quarter and two quarters ended ended December 30, 2016 or in the quarter and two quarters ended January 1, 2016. In addition, no amounts were recognized in earnings in the quarter and two quarters ended December 30, 2016 or in the quarter and two quarters ended January 1, 2016 related to hedged firm commitments that no longer qualify as fair value hedges.

Cash Flow Hedges

We also have hedged U.S. Dollar payments to suppliers to maintain our anticipated profit margins in our international operations. As of December 30, 2016, we had outstanding foreign currency forward contracts denominated in the Euro and British Pound to hedge certain forecasted transactions. 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, 2016 or in the quarter and two quarters ended January 1, 2016.

Note P — Changes in Estimates

Estimates and assumptions, and changes therein, are important in connection with, among others, our segments' revenue recognition policies related to development and production contracts. Revenue and profits related to development and production contracts are recognized using the percentage-of-completion method, generally based on the ratio of costs incurred to estimated total costs at completion (i.e., the "cost-to-cost" method) or the ratio of actual units delivered to estimated total units to be delivered under the contract (i.e., the "units-of-delivery" method) with consideration given for risk of performance and estimated profit. Revenue and profits on cost-reimbursable

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

significant event are generally not recognized until the event occurs. We are party to certain contracts with incentive provisions or award fees that are subject to uncertainty until the conclusion of the contract and our customer may be entitled to reclaim and receive previous award fee payments.

Under the percentage-of-completion method of accounting, a single estimated total profit margin is used to recognize profit for each development and production contract over its period of performance. Recognition of profit on development and production fixed-price contracts requires estimates of the total cost at completion and the measurement of progress toward completion. The estimated profit or loss on a development and production contract is equal to the difference between the estimated contract value and the estimated total cost at completion. Due to the long-term nature of many of our programs, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance, the risk and impact of delayed performance, availability and timing of funding from the customer and the recoverability of any claims outside the original development and production contract included in the estimate to complete. At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard estimate at completion (“EAC”) process in which management reviews the progress and performance on our ongoing development and production contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, at the outset of a cost-reimbursable contract (for example, contracts containing award or incentive fees), we establish an estimated total contract value, or revenue, based on our expectation of performance on the contract. As the cost-reimbursable contract progresses, our estimates of total contract value may increase or decrease if, for example, we receive higher or lower than expected award fees. When adjustments in estimated total costs at completion or in estimated total contract value are determined, the related impact to operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Anticipated losses on development and production contracts or programs in progress are charged to operating income when identified. Net EAC adjustments resulting from changes in estimates favorably impacted our operating income by $8 million ($0.04 per diluted share) and $21 million ($0.10 per diluted share) in the quarter and two quarters ended December 30, 2016 and by $24 million ($0.12 per diluted share) and $41 million ($0.21 per diluted share) in the quarter and two quarters ended January 1, 2016.

Note Q — 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 four operating segments, which are also our reportable segments and are referred to as our business segments:

- Communication Systems, serving markets in tactical communications and defense and public safety networks;
- Space and Intelligence Systems, providing complete Earth observation, environmental, geospatial, space protection, and intelligence solutions from advanced sensors and payloads, as well as ground processing and information analytics;
- Electronic Systems, offering an extensive portfolio of solutions in electronic warfare, avionics, wireless technology, command, control, communications, computers and intelligence and undersea systems; and
- Critical Networks, providing managed services supporting air traffic management and ground network operation and sustainment, as well as high-value IT and engineering services.

In the second quarter of fiscal 2017, we entered into a definitive agreement to sell our CapRock business. CapRock was formerly part of our Critical Networks segment and is reported as discontinued operations in this Report. As a result, our historical financial results have been restated to account for CapRock as discontinued operations for all periods presented in this Report. See Note B — Discontinued Operations in these Notes for additional information regarding discontinued operations. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes relate solely to our continuing operations.

Beginning with the third quarter of fiscal 2017, we will report the financial results of our operations in the following three business segments: Communication Systems, Space and Intelligence Systems and Electronic Systems. See “Business Segments” under Note S — Subsequent Events in these Notes for additional information.
The accounting policies of our business segments are the same as those described in Note 1: “Significant Accounting Policies” in our Notes to Consolidated Financial Statements in our Fiscal 2016 Form 10-K. We evaluate each segment’s performance based on its operating income or loss, which we define as profit or loss from operations before income taxes excluding interest income and expense, royalties and related intellectual property expenses, equity method investment income or loss and gains or losses from securities and other investments. Intersegment sales are generally transferred at cost to the

buying segment, and the sourcing segment recognizes a profit that is eliminated. The “Corporate eliminations” line items in the tables below represent the elimination of intersegment sales and their related profits. The “Unallocated corporate expense” line item in the tables below represents the portion of corporate expenses not allocated to our business segments.

Total assets by business segment are summarized below:

	December 30, 2016	July 1, 2016
	(In millions)	
Total Assets		
Communication Systems	$1,606	$1,667
Space and Intelligence Systems	2,119	2,149
Electronic Systems	2,241	2,253
Critical Networks	2,639	2,656
Corporate (1) (2)	3,013	3,268
	$11,618	$11,993

(1) Identifiable intangible assets acquired in connection with our acquisition of Exelis Inc. (“Exelis”) in the fourth quarter of fiscal 2015 were recorded as Corporate assets because they benefit the entire Company as opposed to any individual segment. Exelis identifiable intangible asset balances recorded as Corporate assets were $1.4 billion as of December 30, 2016 and July 1, 2016.

(2) Corporate assets include the assets and liabilities of discontinued operations. See Note B — Discontinued Operations in these Notes for additional information regarding discontinued operations.

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

	Quarter Ended		Two Quarters Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions)			
Revenue				
Communication Systems	$413	$ 489	$843	$ 943
Space and Intelligence Systems	468	446	921	881
Electronic Systems	384	381	745	756
Critical Networks	454	446	905	910
Corporate eliminations	(19)	(14)	(36)	(32)
	$1,700	$ 1,748	$3,378	$ 3,458
Income From Continuing Operations Before Income Taxes				
Segment Operating Income:				
Communication Systems (1)	$121	$ 121	$240	$ 259
Space and Intelligence Systems	77	68	157	135
Electronic Systems	79	63	153	132
Critical Networks (2)	75	63	135	123
Unallocated corporate income (expense) (3)	(65)	14	(135)	(61)
	(1)	(1)	(2)	(2)

Corporate eliminations				
Non-operating income	1	—	2	1
Net interest expense	(43)	(46)	(87)	(92)
	$244	$ 282	$463	$ 495

(1) Communication Systems operating income included $17 million of charges in the quarter and two quarters ended January 1, 2016, primarily related to workforce reductions, facility consolidation and other items. We recorded $14 million of these charges in the "Cost of product sales and services" line item and the remaining $3 million of these charges in the "Engineering, selling and administrative expenses" line item in the accompanying Condensed Consolidated Statement of Income (Unaudited).

(2) Critical Networks operating income included $4 million of charges in the quarter and two quarters ended January 1, 2016, primarily related to workforce reductions and facility consolidation. We recorded these charges in the "Engineering, selling and administrative expenses" line item in the accompanying Condensed Consolidated Statement of Income (Unaudited).

(3) Unallocated corporate income (expense) included: (i) the impact of a net liability reduction of $101 million in the quarter and two quarters ended January 1, 2016 for certain post-employment benefit plans, (ii) charges of $13 million and $29 million in the quarter and two quarters ended December 30, 2016, respectively, compared with charges of $41 million and $61 million in the quarter and two quarters ended January 1, 2016, respectively, for integration and other costs associated with our acquisition of Exelis in the fourth quarter of fiscal 2015 and (iii) $33 million and $66 million of expense in the quarters and two quarters ended December 30, 2016 and January 1, 2016, respectively, for amortization of intangible assets acquired as a result of our acquisition of Exelis. Because the acquisition of Exelis benefited the entire Company as opposed to any individual segment, the amortization of identifiable intangible assets acquired in the Exelis acquisition was recorded as unallocated corporate expense.

Note R — Legal Proceedings and Contingencies

From time to time, as a normal incident of the nature and kind of businesses in which we are, and were, engaged, various claims or charges are asserted and litigation or arbitration is commenced by or against us arising from or related to matters, including but not limited to: product liability; personal injury; patents, trademarks, trade secrets or other intellectual property; labor and employee disputes; commercial or contractual disputes; strategic acquisitions or divestitures; the prior sale or use of former products allegedly containing asbestos or other restricted materials; breach of warranty; or environmental matters. Claimed amounts against us may be substantial but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals for losses related to those matters against us that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are expensed when incurred. At December 30, 2016, our accrual for the potential resolution of lawsuits, claims or proceedings that we consider probable of being decided unfavorably to us was not material. Although it is not feasible to predict the outcome of these matters with certainty, it is reasonably possible that some lawsuits, claims or proceedings may be disposed of or decided unfavorably to us and in excess of the amounts currently accrued. Based on available information, in the opinion of management, settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in litigation or arbitration in existence at December 30, 2016 are reserved against or would not have a material adverse effect on our financial position, results of operations or cash flows.

Legal Proceedings
On February 4, 2013, we completed the sale of Broadcast Communications to the Buyer pursuant to a definitive Asset Sale Agreement entered into December 5, 2012 for $225 million, including $160 million in cash, subject to customary adjustments (including a post-closing working capital adjustment), a $15 million subordinated promissory note (which was collected in fiscal 2014) and an earnout of up to $50 million based on future performance. Based on a dispute between us and the Buyer over the amount of the post-closing working capital adjustment, we and the Buyer previously appointed a nationally recognized accounting firm to render a final determination of such dispute. On January 29, 2016, the accounting firm rendered its final determination as to the disputed items, in which it concluded substantially in our favor and partly in the Buyer's favor. As further discussed in Note B — Discontinued Operations in these Notes, as a result of such determination, we recorded a loss in discontinued operations of $21 million ($17 million after-tax) in the second quarter of fiscal 2016.
International
As an international company, we are, from time to time, the subject of investigations relating to our international operations, including under U.S. export control laws and the Foreign Corrupt Practices Act ("FCPA") and other similar U.S. and international laws. On April 4, 2011, we completed the acquisition of Carefx Corporation ("Carefx") and thereby also acquired its subsidiaries, including in China ("Carefx China"). Following the closing, we became aware that certain entertainment, travel and other expenses in connection with the Carefx China operations may have been incurred or recorded improperly. In response, we initiated an internal investigation and learned that certain employees of the Carefx China operations had provided pre-paid gift cards and other gifts and payments to certain customers, potential customers, consultants, and government regulators, after which we took certain remedial actions. The results of the investigation were disclosed to our Audit Committee, Board of Directors and auditors, and voluntarily to the U.S. Department of Justice ("DOJ") and the SEC. The SEC and DOJ initiated investigations with respect to this matter. During the second quarter of fiscal 2016, the DOJ advised us that it had determined not to take any action against us related to this matter. The DOJ further advised us that its decision was based on its overall view of the evidence as to our level of acquisition due diligence and integration efforts, our voluntary disclosure to the DOJ and SEC, our continued remediation efforts and our cooperation throughout the investigation. During the quarter ended September 30, 2016, the SEC issued an order in an Administrative Proceeding announcing that it had determined not to bring charges against us related to this matter.
Environmental Matters
We are subject to numerous U.S. Federal, state, local and international environmental laws and regulatory requirements and are involved from time to time in investigations or litigation of various potential environmental issues. We are responsible, or are alleged to be responsible, for ongoing environmental investigation and remediation of multiple sites, including as a result of our acquisition of Exelis. These sites are in various stages of investigation and/or remediation and in some of these proceedings our liability is considered de minimis. We have received notices from the U.S. Environmental Protection Agency (the "EPA") or equivalent state or international environmental agencies that a number of sites formerly or currently owned and/or operated by us or companies we have acquired, and other properties or water supplies that may be or have been impacted from those operations, contain disposed or recycled materials or wastes and require environmental investigation and/or remediation. These sites include instances where we have been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the "Superfund Act") and/or equivalent state and international laws. For example, Exelis received notice in June 2014 from the Department of Justice, Environment and Natural Resources Division, that it may be potentially responsible for contribution to the environmental investigation and remediation of multiple locations in Alaska. In addition, the EPA issued on March 4, 2016, a record of decision selecting a remedy for the lower 8.3 mile stretch of the Lower Passaic River. The EPA's selected remedy includes dredging the river bank to bank, installing an engineered cap and long-term monitoring. The EPA estimates the cost of the cleanup project will be $1.38 billion. On March 31, 2016, the EPA notified over 100 potentially responsible parties, including Exelis, of their potential liability for the cost of the cleanup project but their respective allocations have not been determined. We have found no evidence that Exelis contributed any of the primary contaminants of concern to the Passaic River. We intend to vigorously defend ourselves in this matter and we believe our ultimate costs will not be material. Although it is not feasible to predict the outcome of these environmental claims, based on

available information, in the opinion of our management, any payments we may be required to make as a result of environmental claims in existence at December 30, 2016 are reserved against, covered by insurance or would not have a material adverse effect on our financial position, results of operations or cash flows.

Note S — Subsequent Events

CapRock Divestiture

On January 1, 2017, we completed the sale of our CapRock business pursuant to a definitive agreement with SpeedCast entered into on November 1, 2016 for $425 million in cash, subject to customary adjustments (including a post-closing working capital adjustment). CapRock, which was formerly part of our Critical Networks segment, provided wireless, terrestrial and satellite communications services to energy and maritime customers. We will provide various transition services to SpeedCast for a period of up to 12 months following the close of the transaction pursuant to a separate agreement.

Following the quarter ended December 30, 2016, we used $248 million of the cash proceeds from the CapRock divestiture to repay principal on our term loans ($215 million of voluntary prepayments of principal and $33 million of scheduled repayments).

IT Services Divestiture

On January 26, 2017, we entered into a definitive agreement to sell our government IT services business ("IT Services") to an affiliate of Veritas Capital Fund Management, L.L.C. for $690 million in cash, subject to customary purchase price adjustments as set forth in the agreement. We have determined IT Services, which primarily provides IT and engineering managed services to U.S. Government agencies, is no longer strategic to our overall Company. Our air traffic management business, primarily serving the Federal Aviation Authority ("FAA"), and our Pacific Missile Range Facility program are not part of the transaction and will remain part of the Company. The transaction is subject to regulatory review and other customary closing conditions. We expect the transaction to close before the end of fiscal 2017; however, there can be no assurances that the conditions will be satisfied (or waived, if applicable) or that closing will occur either before the end of 2017 or at all. We intend to use cash proceeds from the IT Services divestiture and remaining proceeds from the CapRock divestiture to support our capital allocation strategy, including share repurchases and approximately $400 million of voluntary pension contributions.

The following table summarizes the approximate carrying amount of the major classes of assets and liabilities of IT Services as of December 30, 2016:

	(In millions)
Assets	
Current assets	$ 270
Goodwill	460
Other intangible assets	250
Other assets	20
Liabilities	
Current liabilities	$ 110

IT Services met the held for sale criteria in January 2017, and consequently IT Services' assets and liabilities will be classified as held for sale, and its financial results will be reported in discontinued operations, beginning in the third quarter of fiscal 2017. IT Services' financial results for periods prior to the third quarter of fiscal 2017 were reported as part of our Critical Networks segment. We expect to record in discontinued operations in the third quarter of fiscal 2017 a non-cash charge to write down to fair value IT Services' net assets that are held for sale, resulting in an estimated loss on the sale of IT Services of approximately $130 million net of deferred tax adjustments triggered in connection with the transaction. We completed a goodwill impairment assessment of the reporting unit that includes our IT Services and our air traffic management business and concluded it was not more likely than not that an impairment existed as of December 30, 2016.

Business Segments

In connection with the pending IT Services divestiture, our other remaining operations that were part of our Critical Networks segment, including our air traffic management business and our Pacific Missile Range Facility program, will be operated as part of our Electronic Systems segment effective for the third quarter of fiscal 2017, and our Critical Networks segment will no longer exist. As a result, we will report financial results of our operations in the following three business segments beginning in the third quarter of fiscal 2017: Communication Systems, Space and Intelligence Systems and Electronic Systems. There are no changes to our Communication Systems or Space and Intelligence Systems business segments as a result of this reorganization.

New Share Repurchase Program

On January 26, 2017, our Board of Directors approved a new $1 billion share repurchase program, which is in addition to our current share repurchase program. Our new repurchase program does not have a stated expiration date and authorizes repurchases through open market purchases, private transactions, transactions structured through investment banking institutions or any combination thereof. The level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time. See "Common Stock Repurchases" in Management's Discussion and Analysis of Financial Condition and Results of Operations in this Report for additional information.

REVIEW REPORT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of Harris Corporation

We have reviewed the unaudited condensed consolidated balance sheet of Harris Corporation as of December 30, 2016, and the related unaudited condensed consolidated statements of income and comprehensive income for the quarter and two quarters ended December 30, 2016 and January 1, 2016, and the unaudited condensed consolidated statements of cash flows for the two quarters ended December 30, 2016 and January 1, 2016. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Harris Corporation as of July 1, 2016, and the related consolidated statements of income, comprehensive income, cash flows, and equity for the year then ended (not presented herein) and expressed an unqualified audit opinion on those consolidated financial statements in our report dated August 29, 2016. In our opinion, the accompanying condensed consolidated balance sheet of Harris Corporation as of July 1, 2016, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
Orlando, Florida
February 3, 2017

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 our financial condition and results of operations. This MD&A is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to, our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes appearing elsewhere in this Report. In addition, reference should be made to our audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Fiscal 2016 Form 10-K. Except for the historical information contained herein, the discussions in this MD&A contain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in this MD&A under "Forward-Looking Statements and Factors that May Affect Future Results."

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

- Results of Operations — an analysis of our consolidated results of operations and of the results in each of our four business segments, to the extent the segment operating results are helpful to an understanding of our business as a whole, for the periods presented in our Condensed Consolidated Financial Statements (Unaudited).
- Liquidity and Capital Resources — an analysis of cash flows, funding of pension plans, common stock repurchases, dividends, capital structure and resources, off-balance sheet arrangements and commercial commitments and contractual obligations.
- Critical Accounting Policies and Estimates — information about accounting policies that require critical judgments and estimates and about accounting standards that have been issued, but are not yet effective for us, and their potential impact on our financial position, results of operations and cash flows.
- Forward-Looking Statements and Factors that May Affect Future Results — cautionary information about forward-looking statements and a description of certain risks and uncertainties that could cause our actual results to differ materially from our historical results or our current expectations or projections.

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 four operating segments, which are also our reportable segments and are referred to as our business segments:

- Communication Systems, serving markets in tactical communications and defense and public safety networks;
- Space and Intelligence Systems, providing complete Earth observation, environmental, geospatial, space protection, and intelligence solutions from advanced sensors and payloads, as well as ground processing and information analytics;
- Electronic Systems, offering an extensive portfolio of solutions in electronic warfare, avionics, wireless technology, command, control, communications, computers and intelligence and undersea systems; and
- Critical Networks, providing managed services supporting air traffic management and ground network operation and sustainment, as well as high-value IT and engineering services.

On November 1, 2016, we entered into a definitive agreement to sell our Harris CapRock Communications commercial business ("CapRock"), which we determined is no longer strategic to our overall Company, to SpeedCast International Ltd. ("SpeedCast") for $425 million in cash, subject to customary adjustments (including a post-closing working capital adjustment). CapRock, which was formerly part of our Critical Networks segment, provided wireless, terrestrial and satellite communications services to energy and maritime customers. We will provide various transition services to SpeedCast for a period of up to 12 months following the close of the transaction pursuant to a separate agreement.

On January 1, 2017, we completed the sale of CapRock. See Note S — Subsequent Events in the Notes for additional information.

See Note B — Discontinued Operations in these Notes for additional information regarding discontinued operations. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in this MD&A relate solely to our continuing operations.

Beginning with the third quarter of fiscal 2017, we will report the financial results of our operations in the following three business segments: Communication Systems, Space and Intelligence Systems and Electronic Systems. See "Business Segments" under Note S — Subsequent Events in the Notes for additional information.
Amounts contained in this Report may not always add to totals due to rounding.

RESULTS OF OPERATIONS

Highlights

Operations results for the second quarter of fiscal 2017 included:

- Revenue decreased 3 percent to $1.70 billion in the second quarter of fiscal 2017 from $1.75 billion in the second quarter of fiscal 2016;
- Income from continuing operations decreased 15 percent to $168 million in the second quarter of fiscal 2017 from $197 million in the second quarter of fiscal 2016;
- Income from continuing operations per diluted share decreased 16 percent to $1.33 in the second quarter of fiscal 2017 from $1.58 in the second quarter of fiscal 2016;
- Communication Systems revenue decreased 16 percent to $413 million and operating income was unchanged at $121 million in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016;
- Space and Intelligence Systems revenue increased 5 percent to $468 million and operating income increased 13 percent to $77 million in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016;
- Electronic Systems revenue increased 1 percent to $384 million and operating income increased 25 percent to $79 million in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016;
- Critical Networks revenue increased 2 percent to $454 million and operating income increased 19 percent to $75 million in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016; and
- Net cash provided by operating activities decreased 24 percent to $295 million in the first two quarters of fiscal 2017 compared with $387 million in the first two quarters of fiscal 2016.

Consolidated Results of Operations

	Quarter Ended			Two Quarters Ended		
	December 30, 2016	January 1, 2016	% Inc/ (Dec)	December 30, 2016	January 1, 2016	% Inc/ (Dec)
	(Dollars in millions, except per share amounts)					
Revenue:						
Communication Systems	$413	$489	(16)%	$843	$943	(11)%
Space and Intelligence Systems	468	446	5 %	921	881	5 %
Electronic Systems	384	381	1 %	745	756	(1)%
Critical Networks	454	446	2 %	905	910	(1)%
Corporate eliminations	(19)	(14)	36 %	(36)	(32)	13 %
Total revenue	1,700	1,748	(3)%	3,378	3,458	(2)%
Cost of product sales and services	(1,138)	(1,203)	(5)%	(2,258)	(2,347)	(4)%
Gross margin	562	545	3 %	1,120	1,111	1 %
	33 %	31 %		33 %	32 %	

% of total revenue						
Engineering, selling and administrative expenses	(276)	(217)	27 %	(572)	(525)	9 %
% of total revenue	16 %	12 %		17 %	15 %	
Non-operating income	1	—	*	2	1	100 %
Net interest expense	(43)	(46)	(7)%	(87)	(92)	(5)%
Income from continuing operations before income taxes	244	282	(13)%	463	495	(6)%
Income taxes	(76)	(85)	(11)%	(139)	(152)	(9)%
Effective tax rate	31 %	30 %		30 %	31 %	
Income from continuing operations	$168	$197	(15)%	$324	$343	(6)%
% of total revenue	10 %	11 %		10 %	10 %	
Income from continuing operations per diluted common share	$1.33	$1.58	(16)%	$2.57	$2.75	(7)%

* Not meaningful

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Revenue

Second Quarter 2017 Compared With Second Quarter 2016: The decrease in revenue in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to lower revenue in our Communication Systems segment, partially offset by higher revenue in our Space and Intelligence Systems, Electronic Systems and Critical Networks segments. The primary drivers of lower revenue were lower international tactical sales in our Communication Systems segment and the impact of the divestiture of the Aerostructures business from our Electronic Systems segment in the fourth quarter of fiscal 2016, which contributed $18 million of revenue in the second quarter of fiscal 2016. The increase in revenue in our Space and Intelligence Systems segment was primarily due to higher revenue from intelligence community customers.

First Two Quarters 2017 Compared With First Two Quarters 2016: The decrease in revenue in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the same reasons as noted above regarding the second quarters of fiscal 2017 and 2016. Aerostructures contributed $37 million of revenue in the first two quarters of fiscal 2016. Segment revenue in the first two quarters of fiscal 2017 also reflected lower revenue from IT services within our Critical Networks segment.

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

Gross Margin Percentage

Second Quarter 2017 Compared With Second Quarter 2016: The increase in gross margin as a percentage of total revenue (“gross margin percentage”) in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to $21 million higher pension income, as well as charges related to restructuring programs in the second quarter of fiscal 2016 and a contract settlement in our mission networks business in our Critical Networks segment in the second quarter of fiscal 2017, partially offset by lower revenue in our Communication Systems segment and unfavorable mix of program revenue in our Critical Networks segment.

First Two Quarters 2017 Compared With First Two Quarters 2016: The increase in gross margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the same reasons as noted above regarding the second quarters of fiscal 2017 and 2016.

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

Engineering, Selling and Administrative Expenses

Second Quarter 2017 Compared With Second Quarter 2016: The increases in engineering, selling and administrative (“ESA”) expenses and ESA as a percentage of total revenue (“ESA percentage”) in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 were primarily due to integration-related synergy savings and a $28 million reduction in integration and other costs associated with our acquisition of Exelis in the fourth quarter of fiscal 2015, more than offset by a $101 million net liability reduction for certain post-employment benefit plans recorded during the second quarter of fiscal 2016.

First Two Quarters 2017 Compared With First Two Quarters 2016: The increases in ESA expenses and ESA percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the same reasons as noted above regarding the second quarters of fiscal 2017 and 2016.

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

Income Taxes

Second Quarter 2017 Compared With Second Quarter 2016: Our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) was 31 percent in the second quarter of fiscal 2017 compared with 30 percent in the second quarter of fiscal 2016. In the second quarter of fiscal 2017, our effective tax rate was not impacted by any significant discrete item. In the second quarter of fiscal 2016, our effective tax rate benefited from the effect of legislation enacted in the second quarter of fiscal 2016 that restored the U.S. Federal income tax credit for qualifying R&D expenses for calendar year 2015 and made the credit permanent for periods following December 31, 2015. This resulted in a benefit of approximately $12 million in calculating our effective tax rate in the second quarter of fiscal 2016. Approximately 40 percent of this benefit related to R&D expenses in the second half of fiscal 2015 and the remainder related to R&D expenses in fiscal 2016. Additionally, in the second quarter of fiscal 2016, our effective tax rate benefited from the settlement of a state tax issue for an amount lower than the previously recorded estimate and several differences between GAAP and tax accounting for investments.

First Two Quarters 2017 Compared With First Two Quarters 2016: In the first two quarters of fiscal 2017, our effective tax rate was 30 percent compared with 31 percent in the first two quarters of fiscal 2016. In the first two quarters of fiscal 2017, our effective tax rate was impacted by the adoption of the accounting standard issued by the FASB that changed the accounting for certain aspects of stock options and other share-based compensation, as discussed in Note A — Significant Accounting Policies and Recent Accounting Standards in the Notes, and by several differences in GAAP and tax accounting related to investments. In the first two quarters of fiscal 2016, our effective tax rate benefited from the discrete items noted above regarding the second quarter of fiscal 2016.

Income From Continuing Operations Per Diluted Common Share

Second Quarter 2017 Compared With Second Quarter 2016: The decrease in income from continuing operations per diluted common share in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to the reasons noted above in this “Consolidated Results of Operations” discussion regarding the second quarters of fiscal 2017 and 2016.

First Two Quarters 2017 Compared With First Two Quarters 2016: The decrease in income from continuing operations per diluted common share in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the reasons noted above in this “Consolidated Results of Operations” discussion regarding the first two quarters of fiscal 2017 and 2016.

Discussion of Business Segment Results of Operations

Communication Systems Segment

	Quarter Ended			Two Quarters Ended		
	December 30, 2016	January 1, 2016	% Inc/ (Dec)	December 30, 2016	January 1, 2016	% Inc/ (Dec)
	(Dollars in millions)					
Revenue	$413	$489	(16)%	$843	$943	(11)%
Cost of product sales and services	(209)	(264)	(21)%	(427)	(480)	(11)%
Gross margin	204	225	(9)%	416	463	(10)%
% of revenue	49 %	46 %		49 %	49 %	
ESA expenses	(83)	(104)	(20)%	(176)	(204)	(14)%
% of revenue	20 %	21 %		21 %	22 %	
Segment operating income	$121	$121	— %	$240	$259	(7)%
% of revenue	29 %	25 %		28 %	27 %	

Second Quarter 2017 Compared With Second Quarter 2016: Segment revenue in the second quarter of fiscal 2017 included $310 million in Tactical Communications, a 19 percent decrease from $381 million in the second quarter of fiscal 2016, and $103 million in Public Safety and Professional Communications, a 5 percent decrease from $108 million in the second quarter of fiscal 2016. The decrease in Tactical Communications revenue in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to lower international tactical sales. The decrease in Public Safety and Professional Communications revenue in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to weaker orders volume.

The decrease in segment gross margin in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily attributable to the decrease in revenue. The increase in segment gross margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily attributable to a more favorable mix of program and product revenue and restructuring savings in the second quarter of fiscal 2017, and $14 million of restructuring charges for workforce reductions, facility consolidations and other items in the second quarter of fiscal 2016. The decreases in segment ESA expenses and ESA percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 were primarily attributable to cost containment, and restructuring and Exelis acquisition integration-related synergy savings. Segment operating income in the second quarter of fiscal 2017 was comparable with the second quarter of fiscal 2016 reflecting the favorable mix despite lower revenue. The increase in segment operating income as a percentage of revenue (“operating margin percentage”) in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 reflected the items discussed above regarding this segment.

First Two Quarters 2017 Compared With First Two Quarters 2016: The decrease in segment revenue in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to lower revenue in Tactical Communications primarily due to lower international tactical sales.
The decrease in segment gross margin in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the decrease in revenue. Segment gross margin percentage in the first two quarters of fiscal 2017 was comparable to the first two quarters of fiscal 2016 as the impact of lower program revenue was offset by a more favorable mix of program and product revenue and restructuring savings in the first two quarters of fiscal 2017, and $14 million of charges for restructuring, severance and asset write-downs in the first two quarters of fiscal 2016. The decreases in segment ESA expenses and ESA percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 were primarily due to cost containment, and restructuring and Exelis acquisition integration-related synergy savings. The decrease in segment operating income and the increase in operating margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 reflected the items discussed above regarding this segment.
Space and Intelligence Systems Segment

	Quarter Ended			Two Quarters Ended		
	December 30, 2016	January 1, 2016	% Inc/ (Dec)	December 30, 2016	January 1, 2016	% Inc/ (Dec)
	(Dollars in millions)					
Revenue	$468	$446	5 %	$921	$881	5 %
Cost of product sales and services	(338)	(331)	2 %	(659)	(644)	2 %
Gross margin	130	115	13 %	262	237	11 %
% of revenue	28 %	26 %		28 %	27 %	
ESA expenses	(53)	(47)	13 %	(105)	(102)	3 %
% of revenue	11 %	11 %		11 %	12 %	
Segment operating income	$77	$68	13 %	$157	$135	16 %
% of revenue	16 %	15 %		17 %	15 %	

Second Quarter 2017 Compared With Second Quarter 2016: The increase in segment revenue in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to higher revenue from intelligence community customers.
The increases in segment gross margin and gross margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 were primarily attributable to increased segment revenue and higher pension income. The increase in segment ESA expenses in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily attributable to higher R&D expenses. Segment ESA percentage in the second quarter of fiscal 2017 was comparable with the second quarter of fiscal 2016. The increases in segment operating income and operating margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 reflected the items discussed above regarding this segment.
First Two Quarters 2017 Compared With First Two Quarters 2016: The increase in segment revenue in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the reason noted above regarding this segment for the second quarters of fiscal 2017 and 2016, and higher revenue from the Radiation Budget Instrument program to provide sensors for monitoring climate change and global warming for NASA Joint Polar Satellite System satellites.
The increases in segment gross margin and gross margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 were primarily due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2017 and 2016. Segment ESA expenses in the first two quarters of fiscal 2017 increased from the first two quarters of fiscal 2016 primarily due to the reasons noted above regarding this segment for the second quarters of fiscal 2017 and 2016. Segment ESA percentage in the first two quarters of fiscal 2017 was comparable with the first two quarters of fiscal 2016. The increases in segment operating income and operating margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016

reflected the items discussed above regarding this segment.

Electronic Systems Segment

	Quarter Ended			Two Quarters Ended		
	December 30, 2016	January 1, 2016	% Inc/ (Dec)	December 30, 2016	January 1, 2016	% Inc/ (Dec)
	(Dollars in millions)					
Revenue	$384	$381	1 %	$745	$756	(1)%
Cost of product sales and services	(268)	(278)	(4)%	(517)	(543)	(5)%
Gross margin	116	103	13 %	228	213	7 %
% of revenue	30 %	27 %		31 %	28 %	
ESA expenses	(37)	(40)	(8)%	(75)	(81)	(7)%
% of revenue	10 %	10 %		10 %	11 %	
Segment operating income	$79	$63	25 %	$153	$132	16 %
% of revenue	21 %	17 %		21 %	17 %	

Second Quarter 2017 Compared With Second Quarter 2016: The increase in segment revenue in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to $29 million higher revenue from electronic warfare solutions and higher revenue from a recently won integrated battle management contract in the Middle East, partially offset by $18 million lower revenue due to the divestiture of our Aerostructures business in the fourth quarter of fiscal 2016 and lower revenue from wireless product sales.

The increases in segment gross margin and gross margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 were primarily due to continued strong program performance in the electronic warfare solutions and avionics businesses, higher pension income and lower gross margin due to the divestiture of Aerostructures, partially offset by lower gross margin in wireless product sales. Segment ESA expenses decreased slightly and segment ESA percentage was comparable in the second quarter of fiscal 2017 with the second quarter of fiscal 2016. The increases in segment operating income and operating margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 reflected the items discussed above regarding this segment.

First Two Quarters 2017 Compared With First Two Quarters 2016: The decrease in segment revenue in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to the divestiture of our Aerostructures business in the fourth quarter of fiscal 2016, partially offset by the reasons noted above regarding this segment for the second quarters of fiscal 2017 and 2016. Aerostructures contributed $37 million to segment revenue in the first two quarters of fiscal 2016.

The increases in segment gross margin and gross margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 were primarily due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2017 and 2016. The decreases in segment ESA expenses and ESA percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 were primarily due to Exelis acquisition integration-related synergy savings. The increases in segment operating income and operating margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 reflected the items discussed above regarding this segment.

Critical Networks Segment

	Quarter Ended			Two Quarters Ended		
	December 30, 2016	January 1, 2016	% Inc/ (Dec)	December 30, 2016	January 1, 2016	% Inc/ (Dec)
	(Dollars in millions)					
Revenue	$454	$446	2 %	$905	$910	(1)%
Cost of	(340)	(345)	(1)%	(691)	(712)	(3)%

product sales and services						
Gross margin	114	101	13 %	214	198	8 %
% of revenue	25 %	23 %		24 %	22 %	
ESA expenses	(39)	(38)	3 %	(79)	(75)	5 %
% of revenue	9 %	9 %		9 %	8 %	
Segment operating income	$75	$63	19 %	$135	$123	10 %
% of revenue	17 %	14 %		15 %	14 %	

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Second Quarter 2017 Compared With Second Quarter 2016: The increase in segment revenue in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 was primarily due to $22 million from a contract settlement in our mission networks business in the second quarter of fiscal 2017, partially offset by lower IT services revenue.

The increases in segment gross margin and gross margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 were primarily due to the same reasons as noted above regarding revenue for this segment. Gross margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 also reflected a less favorable mix of program revenue and lower IT services revenue. Segment ESA expenses and ESA percentage in the second quarter of fiscal 2017 were comparable with the second quarter of fiscal 2016. The increases in segment operating income and operating margin percentage in the second quarter of fiscal 2017 compared with the second quarter of fiscal 2016 reflected the items discussed above regarding this segment.

First Two Quarters 2017 Compared With First Two Quarters 2016: The decrease in segment revenue in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to $37 million of lower IT services revenue, partially offset by higher revenue from FAA NextGen modernization programs.

The increases in segment gross margin and gross margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 were primarily due to the same reasons as noted above regarding this segment for the second quarters of fiscal 2017 and 2016. Segment ESA expenses and ESA percentage in the first two quarters of fiscal 2017 were comparable with the first two quarters of fiscal 2016. The increases in segment operating income and operating margin percentage in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 reflected the items discussed above regarding this segment.

Unallocated Corporate (Income) Expense and Corporate Eliminations

	Quarter Ended			Two Quarters Ended		
	December 30, 2016	January 1, 2016	% Inc/ (Dec)	December 30, 2016	January 1, 2016	% Inc/ (Dec)
	(Dollars in millions)					
Unallocated corporate (income) expense	$32	$ (47)	*	$69	$ (5)	*
Amortization of intangible assets from Exelis Inc. acquisition	33	33	—%	66	66	—%
Corporate eliminations	1	1	—%	2	2	—%

* Not meaningful

Second Quarter 2017 Compared With Second Quarter 2016: Unallocated corporate expense in the second quarter of fiscal 2017 compared with unallocated corporate income in the second quarter of fiscal 2016 was primarily due to a $101 million net liability reduction for certain post-employment benefit plans in the second quarter of fiscal 2016,

partially offset by a $28 million reduction in integration and other costs associated with our acquisition of Exelis in the fourth quarter of fiscal 2015.
First Two Quarters 2017 Compared With First Two Quarters 2016: Unallocated corporate expense in the first two quarters of fiscal 2017 compared with unallocated corporate income in the first two quarters of fiscal 2016 was primarily due to a $101 million net liability reduction for certain post-employment benefit plans in the second quarter of fiscal 2016, partially offset by a $32 million reduction in integration and other costs associated with our acquisition of Exelis in the fourth quarter of fiscal 2015.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

	Two Quarters Ended	
	December 30, 2016	January 1, 2016
	(In millions)	
Net cash provided by operating activities	$295	$ 387
Net cash used in investing activities	(74)	(49)
Net cash used in financing activities	(341)	(295)
Effect of exchange rate changes on cash and cash equivalents	(6)	(13)
Net increase (decrease) in cash and cash equivalents	(126)	30
Cash and cash equivalents, beginning of year	487	481
Cash and cash equivalents, end of quarter	$361	$ 511

Our Condensed Consolidated Statement of Cash Flows (Unaudited) includes cash flows from discontinued operations related to CapRock and Broadcast Communications. See Note B — Discontinued Operations in the Notes for additional information regarding discontinued operations, including depreciation, amortization, capital expenditures, and significant operating and investing noncash items of discontinued operations. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in our Condensed Consolidated Financial Statements (Unaudited), the accompanying Notes and this MD&A relate solely to our continuing operations.

Cash and cash equivalents: The $126 million net decrease in cash and cash equivalents from the end of fiscal 2016 to the end of the second quarter of fiscal 2017 was primarily due to $134 million used to pay cash dividends, $115 million of net repayment of borrowings, which included our repayment of the entire outstanding $250 million aggregate principal amount of our 4.25% notes due October 1, 2016, $100 million used to repurchase shares of our common stock, $49 million used for net additions of property, plant and equipment, $25 million from adjustments to proceeds from the sale of a business and $19 million used in other financing activities, partially offset by $295 million of net cash provided by operating activities and $27 million of proceeds from exercises of employee stock options.

The $30 million increase in cash and cash equivalents from the end of fiscal 2015 to the end of the second quarter of fiscal 2016 was primarily due to $387 million of net cash provided by operating activities and $33 million of proceeds from exercises of employee stock options, mostly offset by $186 million used for net repayments of borrowings, which included $350 million of cash used to repay principal on our term loans ($285 million of voluntary prepayments of principal and $65 million of scheduled repayments), $127 million used to pay cash dividends, and $49 million used for net additions of property, plant and equipment.

At December 30, 2016, we had cash and cash equivalents of $361 million, and we have a senior unsecured $1 billion revolving credit facility that expires in July 2020 ($825 million of which was available to us as of December 30, 2016 as a result of $175 million of short-term debt outstanding under our commercial paper program). Additionally, we had $4.2 billion of long-term debt outstanding at December 30, 2016, the majority of which we incurred in connection with our acquisition of Exelis in the fourth quarter of fiscal 2015. For further information regarding our long-term debt, see Note 13: “Long-Term Debt” in our Notes to Consolidated Financial Statements in our Fiscal 2016 Form 10-K.

Our $361 million of cash and cash equivalents at December 30, 2016 included $151 million held by our foreign subsidiaries, of which $113 million was considered permanently reinvested. Of the $113 million, $62 million was available for use in the U.S. without incurring additional U.S. income taxes. We would be required to recognize U.S. income taxes of $11 million on the remaining $51 million if we were to repatriate such funds to the U.S., but we have no current plans to repatriate such funds.

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

We also currently believe that existing cash, funds generated from operations, our credit facility and access to the public and private debt and equity markets will be sufficient to provide for our anticipated working capital requirements, capital expenditures, dividend payments, repurchases under our share repurchase programs, repayment of our term loans and pension contributions for the next 12 months and reasonably foreseeable future thereafter. Our total capital expenditures in fiscal 2017 are expected to be approximately $150 million. We anticipate tax payments over the next three years to be approximately equal or marginally less than our tax expense for the same period. Other than those cash outlays noted in the “Commercial Commitments and Contractual Obligations” discussion below in this MD&A, capital expenditures, dividend payments, repurchases under our share repurchase programs, payments under our term loans and pension contributions, no other significant cash outlays are anticipated during the remainder of fiscal 2017.

There can be no assurance, however, that our business will continue to generate cash flows at current levels or that the cost or availability of future borrowings, if any, under our commercial paper program or our credit facility or in the debt markets will not be impacted by any potential future credit and capital markets disruptions. If we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations, we may be required to sell assets, reduce capital expenditures, reduce or eliminate strategic acquisitions, reduce or terminate our share repurchases, reduce or eliminate dividends, refinance all or a portion of our existing debt or obtain additional financing. Our ability to make principal payments or pay interest on or refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the defense, government and other markets we serve and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Net cash provided by operating activities: The decrease in net cash provided by operating activities in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to lower collections of accounts receivable, partially offset by a relative decline in inventory levels.

Net cash used in investing activities: The increase in net cash used in investing activities in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was due to a $25 million adjustment to the proceeds from the sale of a business in the first quarter of fiscal 2017.

Net cash used in financing activities: The increase in net cash used in financing activities in the first two quarters of fiscal 2017 compared with the first two quarters of fiscal 2016 was primarily due to $100 million more used to repurchase shares of our common stock under our share repurchase program, $7 million more used in the payment of cash dividends and $6 million less proceeds from the exercise of employee stock options, partially offset by $71 million less used for the net repayment of borrowings.

Funding of Pension Plans

Funding requirements under applicable laws and regulations are a major consideration in making contributions to our U.S. pension plans. Although we have significant discretion in making voluntary contributions, the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006 and further amended by the Worker, Retiree, and Employer Recovery Act of 2008, the Moving Ahead for Progress in the 21st Century Act (“MAP-21”) and applicable Internal Revenue Code regulations, mandate minimum funding thresholds. Failure to satisfy the minimum funding thresholds could result in restrictions on our ability to amend the plans or make benefit payments. With respect to U.S. qualified pension plans, we intend to contribute annually not less than the required minimum funding thresholds.

The Highway and Transportation Funding Act of 2014 and the Bipartisan Budget Act of 2015 further extended the interest rate stabilization provision of MAP-21 until 2020. We made total contributions of $103 million to our U.S. qualified plans during the two quarters ended December 30, 2016. We currently anticipate making additional contributions to our U.S. qualified defined benefit pension plans of approximately $485 million during the remainder of fiscal 2017, including approximately $400 million of voluntary contributions funded from proceeds from our IT Services divestiture. See Note S — Subsequent Events in the Notes for additional information.

Future required contributions will depend primarily on the actual annual return on assets and the discount rate used to measure the benefit obligation at the end of each year. Depending on these factors, and the resulting funded status of our pension plans, the level of future statutory minimum contributions could be material. We had net unfunded defined benefit plan obligations of $2.1 billion at December 30, 2016. See Note 14: “Pension and Other Postretirement Benefits” in our Notes to Consolidated Financial Statements in our Fiscal 2016 Form 10-K and Note J — Postretirement Benefit Plans in the Notes for further information regarding our pension plans.

Common Stock Repurchases

During the first two quarters of fiscal 2017, we used $100 million to repurchase 1,100,203 shares of our common stock under our 2013 Repurchase Program (as defined below) at an average price per share of $90.45, including commissions of $.02 per share. During the first two quarters of fiscal 2016, we did not repurchase any shares of our common stock under our 2013 Repurchase Program. As of December 30, 2016, we had a remaining, unused authorization of approximately $584 million under our 2013 Repurchase Program, which does not have a stated

expiration date.
On January 26, 2017, our Board of Directors approved a new $1 billion share repurchase program (our “2017 Repurchase Program”) that is in addition to our 2013 Repurchase Program, which had a remaining unused authorization of approximately

$584 million as of December 30, 2016. Our 2017 Repurchase Program also does not have a stated expiration date. Repurchases under our repurchase programs are expected to be funded with available cash and commercial paper and may be made through open market purchases, private transactions, transactions structured through investment banking institutions or any combination thereof. Shares repurchased by us are cancelled and retired. The level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time.

Additional information regarding our repurchase programs is set forth in this Report under Part II. Item 2. "Unregistered Sales of Equity Securities and Use of Proceeds."

Dividends

On August 27, 2016, our Board of Directors increased the quarterly cash dividend rate on our common stock from $.50 per share to $.53 per share, for an annualized cash dividend rate of $2.12 per share, which was our fifteenth consecutive annual increase in our quarterly cash dividend rate. Our annualized cash dividend rate was $2.00 per share in fiscal 2016. There can be no assurances that our annualized cash dividend rate will continue to increase. Quarterly cash dividends are typically paid in March, June, September and December. We currently expect that cash dividends will continue to be paid in the near future, but we can give no assurances concerning payment of future dividends. The declaration of dividends and the amount thereof will depend on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors that our Board of Directors may deem relevant.

Capital Structure and Resources

2015 Credit Agreement: We have a $1 billion 5-year senior unsecured revolving credit facility (the "2015 Credit Facility") under a Revolving Credit Agreement (the "2015 Credit Agreement") entered into on July 1, 2015 with a syndicate of lenders. For a description of the 2015 Credit Facility and the 2015 Credit Agreement, see Note 11: "Credit Arrangements" in our Notes to Consolidated Financial Statements in our Fiscal 2016 Form 10-K.

We were in compliance with the covenants in the 2015 Credit Agreement at December 30, 2016, including the covenant requiring that we not permit our ratio of consolidated total indebtedness to total capital, each as defined in the 2015 Credit Agreement, to be greater than 0.65 to 1.00. At December 30, 2016, we had no borrowings outstanding under the 2015 Credit Agreement; however, at December 30, 2016, we had $175 million in borrowings outstanding under our commercial paper program, which was supported by the 2015 Credit Facility.

Long-Term Debt: For a description of our long-term variable-rate and fixed-rate debt, see Note 13: "Long-Term Debt" in our Notes to Consolidated Financial Statements in our Fiscal 2016 Form 10-K.

During the quarter ended December 30, 2016, we repaid the entire outstanding $250 million aggregate principal amount of our 4.25% notes due October 1, 2016. The source of funds for the cash payment was cash on hand and proceeds from borrowings under our commercial paper program.

Following the quarter ended December 30, 2016, we used $248 million of the cash proceeds from the CapRock divestiture to repay principal on our term loans ($215 million of voluntary prepayments of principal and $33 million of scheduled repayments).

Short-Term Debt: Our short-term debt at December 30, 2016 and July 1, 2016 was $183 million and $15 million, respectively, and consisted of local borrowing by international subsidiaries for working capital needs and commercial paper at December 30, 2016, and at July 1, 2016. Our commercial paper program was supported at December 30, 2016 and July 1, 2016 by the 2015 Credit Facility.

Off-Balance Sheet Arrangements

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

- Any obligation under certain guarantee contracts;
- A retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- Any obligation, including a contingent obligation, under certain derivative instruments; and
- Any obligation, including a contingent obligation, arising out of a variable interest in an unconsolidated entity that is held by, and material to, the registrant, where such entity 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.

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As of December 30, 2016, we were not participating in any material transactions that generate relationships with unconsolidated entities or financial partnerships, including variable interest entities, and we did not have any material retained or contingent interest in assets as defined above. As of December 30, 2016, we did not have any such 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 financial position, results of operations 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 financial position, results of operations or cash flows.

Due to our downsizing of certain operations pursuant to acquisitions, divestitures, 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 financial position, results of operations or cash flows.

Commercial Commitments and Contractual Obligations

The amounts disclosed in our Fiscal 2016 Form 10-K include our contractual obligations and commercial commitments. During the first two quarters of fiscal 2017, no material changes occurred in our contractual cash obligations to repay debt, to purchase goods and services and to make payments under operating leases or our commercial commitments and contingent liabilities on outstanding surety bonds, standby letters of credit and other arrangements as disclosed in our Fiscal 2016 Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes are prepared in accordance with GAAP. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses as well as disclosures of contingent assets and liabilities. Actual results may differ from our estimates. 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 2016 Form 10-K. Critical accounting policies and estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies and estimates for us include: (i) revenue recognition on contracts and contract estimates (discussed in greater detail in the following paragraphs), (ii) postretirement benefit plans, (iii) provisions for excess and obsolete inventory losses, (iv) impairment testing of goodwill, and (v) 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 2016 Form 10-K.

Revenue Recognition

A significant portion of our business is derived from development and production contracts. Revenue and profits related to development and production contracts are recognized using the percentage-of-completion method, generally based on the ratio of costs incurred to estimated total costs at completion (i.e., the “cost-to-cost” method) or the ratio of actual units delivered to estimated total units to be delivered under the contract (i.e., the “units-of-delivery” method) with consideration given for risk of performance and estimated profit. The majority of the revenue in our Space and Intelligence Systems and Electronic Systems segments (and to a lesser extent, revenue in our Critical Networks and Communication Systems segments) relates to development and production contracts, and the percentage-of-completion method of revenue recognition is primarily used for these contracts. Change orders, claims or other items that may change the scope of a development and production contract are included in contract value only when the value can be reliably estimated and realization is probable. Possible incentives or penalties and award fees applicable to performance on development and production contracts are considered in estimating contract value and profit rates and are recorded when there is sufficient information to assess anticipated contract performance. Incentive provisions that increase earnings based solely on a single significant event are generally not recognized until the event occurs. We are party to certain contracts with incentive provisions or award fees that are subject to uncertainty until the conclusion of the contract and our customer may be entitled to reclaim and receive previous award fee payments. Under the percentage-of-completion method of accounting, a single estimated total profit margin is used to recognize profit for each development and production contract over its period of performance. Recognition of profit on development and production fixed-price contracts requires estimates of the total cost at completion and the measurement of progress toward completion. The estimated profit or loss on a development and production contract is equal to the difference between the estimated contract value and the estimated total cost at completion. Due to the long-term nature of many of our programs, developing the estimated total cost at completion often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance, the risk and impact of delayed performance, availability and timing of funding from the customer and the recoverability of any claims outside the original development and production contract included in the estimate to complete. At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard estimate at completion process in which management reviews the progress and performance on our ongoing development and production contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, at the outset of a cost-reimbursable contract (for example, contracts containing award or incentive fees), we establish an estimated total contract value, or revenue, based on our expectation of performance on the contract. As the cost-reimbursable contract progresses, our estimates of total contract value may increase or decrease if, for example, we receive higher or lower than expected award fees. When adjustments in estimated total costs at completion or in estimated total contract value are determined, the related impact to operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Anticipated losses on development and production contracts or programs in progress are charged to operating income when identified. We have not made any material changes in the methodologies used to recognize revenue on development and production contracts or to estimate our costs related to development and production contracts in the past three fiscal years.

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

	Quarter Ended		Two Quarters Ended	
	December 30, 2016	January 1, 2016	December 30, 2016	January 1, 2016
	(In millions)			
Favorable adjustments	$30	$ 49	$ 71	$ 96
Unfavorable adjustments	(22)	(25)	(50)	(55)
Net operating income adjustments	$8	$ 24	$ 21	$ 41

The decrease in net impact to operating income due to estimate at completion adjustments in the quarter and two quarters ended December 30, 2016 compared with the quarter and two quarters ended January 1, 2016 was primarily due to lower risk retirements in our Communication Systems and Space and Intelligence Systems segments.

We also recognize revenue from arrangements requiring the delivery or performance of multiple deliverables or elements under a bundled sale. In these arrangements, judgment is required to determine the appropriate accounting, including whether the individual deliverables represent separate units of accounting for revenue recognition purposes, and the timing of revenue recognition for each deliverable. If we determine that individual deliverables represent separate units of accounting, we recognize the revenue associated with each unit of accounting separately, and contract revenue is allocated among the separate units of accounting at the inception of the arrangement based on relative selling price. If options or change orders materially change the scope of work or price of the contract subsequent to inception, we reevaluate and adjust our prior conclusions regarding units of accounting and allocation of contract revenue as necessary. The allocation of selling price among the separate units of accounting may impact the timing of revenue recognition, but will not change the total revenue recognized on the arrangement. We establish the selling price used for each deliverable based on the vendor-specific objective evidence (“VSOE”) of selling price, or third-party evidence (“TPE”) of selling price if VSOE of selling price is not available, or best estimate of selling price

(“BESP”) if neither VSOE of selling price nor TPE of selling price is available. In determining VSOE of selling price, a substantial majority of the recent standalone sales of the deliverable must be priced within a relatively narrow range. In determining TPE of selling price, we evaluate competitor prices for similar deliverables when sold separately. Generally, comparable pricing of our products to those of our competitors with similar functionality cannot be obtained. In determining BESP, we consider both market data and entity-specific factors, including market conditions, the geographies in which our products are sold, our competitive position and strategy, and our profit objectives.

Goodwill

Goodwill in our Condensed Consolidated Balance Sheet (Unaudited) as of December 30, 2016 and July 1, 2016 was $5,848 million and $5,839 million, respectively. Goodwill is not amortized. We perform annual (or under certain circumstances, more frequent) impairment tests of our goodwill using a two-step process. The first step is to identify potential impairment by comparing the fair value of each of our reporting units with its net book value, including goodwill, adjusted for allocations of corporate assets and liabilities as appropriate. If the fair value of a reporting unit exceeds its adjusted net book value, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the adjusted net book value of a reporting unit exceeds its fair value, the second step of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. The fair value of the reporting unit is allocated to all of the assets and liabilities of that unit, including any unrecognized intangible assets, as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

2016 Impairment Test: As of the date of our fiscal 2016 impairment test, the estimated fair values for each of our reporting units exceeded their carrying values. However, the fair value of two of our reporting units exceeded their carrying values by between 10 and 15 percent. Both reporting units include a significant concentration of businesses that were acquired as part of the Exelis acquisition in May 2015 and were recorded at their fair value at that time. Although no impairment existed for these reporting units, an impairment of goodwill could result from a number of circumstances, including different assumptions used in determining the fair value of reporting units; future deterioration of the businesses, including further weakness in IT services in our Critical Networks segment; or a sharp increase in interest rates without a corresponding increase in future revenue.

Impact of Recently Issued Accounting Standards

Accounting standards that have been recently issued, but are not yet effective for us, are described in Note A — Significant Accounting Policies and Recent Accounting Standards in the Notes, which describes the potential impact that these standards are expected to have on our financial position, results of operations and cash flows.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

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

- We depend on U.S. Government customers for a significant portion of our revenue, and the loss of these relationships, a reduction in U.S. Government funding or a change in U.S. Government spending priorities could have an adverse impact on our business, financial position, results of operations and cash flows.
- We depend significantly on U.S. Government contracts, which often are only partially funded, subject to immediate termination, and heavily regulated and audited. The termination or failure to fund, or negative audit findings for, one

or more of these contracts could have an adverse impact on our business, financial position, results of operations and cash flows.

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

- The continued effects of the general weakness in the global economy and the U.S. Government's budget deficits and national debt and sequestration could have an adverse impact on our business, financial condition, results of operations and cash flows.
- The level of returns on defined benefit plan assets, changes in interest rates and other factors could affect our earnings and cash flows in future periods.
- 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 use estimates in accounting for many of our programs and changes in our estimates could adversely affect our future financial results.
- 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.
- Our future success will depend on our ability to develop new products, systems, services and technologies that achieve market acceptance in our current and future markets.
- We participate in markets that are often subject to uncertain economic conditions, which makes it difficult to estimate growth in our markets and, as a result, future income and expenditures.
- We cannot predict the consequences of future geo-political events, but they may adversely affect the markets in which we operate, our ability to insure against risks, our operations or our profitability.
- We have made, and may continue to make, strategic acquisitions and divestitures that involve significant risks and uncertainties.
- Disputes with our subcontractors and the inability of our subcontractors to perform, or our key suppliers to timely deliver our components, parts or services, could cause our products or services to be produced or delivered in an untimely or unsatisfactory manner.
- Third parties have claimed in the past and may claim in the future that we are infringing directly or indirectly upon their intellectual property rights, and third parties may infringe upon our intellectual property rights.
- The outcome of litigation or arbitration in which we are involved from time to time is unpredictable and an adverse decision in any such matter could have a material adverse effect on our financial position, results of operations and cash flows.
- We face certain significant risk exposures and potential liabilities that may not be covered adequately by insurance or indemnity.
- Changes in our effective tax rate may have an adverse effect on our results of operations.
- Our level of indebtedness and our ability to make payments on or service our indebtedness and our unfunded pension liability may adversely affect our financial and operating activities or our ability to incur additional debt.
- A downgrade in our credit ratings could materially adversely affect our business.
- Unforeseen environmental issues could have a material adverse effect on our business, financial position, results of operations and cash flows.
- We have significant operations in locations that could be materially and adversely impacted in the event of a natural disaster or other significant disruption.
- Changes in future business or other market conditions could cause business investments and/or recorded goodwill or other long-term assets to become impaired, resulting in substantial losses and write-downs that would adversely affect our results of operations.
- Some of our workforce is represented by labor unions, so our business could be harmed in the event of a prolonged work stoppage.
- We must attract and retain key employees, and failure to do so could seriously harm us.
- We may be responsible for U.S. Federal income tax liabilities that relate to the spin-off of Vectrus completed by Exelis.
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In connection with the Vectrus spin-off, Vectrus indemnified Exelis for certain liabilities and Exelis indemnified Vectrus for certain liabilities. This indemnity may not be sufficient to insure us against the full amount of the liabilities assumed by Vectrus and Vectrus may be unable to satisfy its indemnification obligations to us in the future.

- The Vectrus spin-off may expose us to potential liabilities arising out of state and Federal fraudulent conveyance laws and legal distribution requirements.
- The ITT spin-off of Exelis may expose us to potential liabilities arising out of state and Federal fraudulent conveyance laws and legal distribution requirements.
- If we are required to indemnify ITT or Xylem in connection with the ITT spin-off of Exelis, we may need to divert cash to meet those obligations and our financial results could be negatively impacted.

- Our expected uses of proceeds from the anticipated divestiture of IT Services, and the resulting expected benefits to us, would be adversely impacted by a material delay, or a failure, in achieving the satisfaction (or waiver, if applicable) of the closing conditions for the transaction or otherwise in consummating the transaction.

Additional details and discussions concerning some of the factors that could affect our forward-looking statements or future results are set forth in our Fiscal 2016 Form 10-K under Item 1A. "Risk Factors" and in Part II. Item 1A. "Risk Factors" in this Report. The foregoing list of factors and the factors set forth in Item 1A. "Risk Factors" included in our Fiscal 2016 Form 10-K and in Part II. Item 1A. "Risk Factors" in this Report are not exhaustive. Additional risks and uncertainties not known to us or that we currently believe not to be material also may adversely impact our business, financial condition, results of operations and cash flows. Should any risks or uncertainties develop into actual events, these developments could have a material adverse effect on our business, financial position, results of operations and cash flows. The forward-looking statements contained in this Report are made as of the date hereof and we disclaim any intention or obligation, other than imposed by law, to update or revise any forward-looking statements or to update the reasons actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or developments or otherwise.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Foreign Exchange and Currency: We use foreign currency forward contracts and options to hedge both balance sheet and off-balance sheet future foreign currency commitments. Factors that could impact the effectiveness of our hedging programs for foreign currency include accuracy of sales estimates, volatility of currency markets and the cost and availability of hedging instruments. A 10 percent change in currency exchange rates for our foreign currency derivatives held at December 30, 2016 would not have had a material impact on the fair value of such instruments or our results of operations or cash flows. This quantification of exposure to the market risk associated with foreign currency financial instruments does not take into account the offsetting impact of changes in the fair value of our foreign denominated assets, liabilities and firm commitments. See Note O — Derivative Instruments and Hedging Activities in the Notes for additional information.

Interest Rates: As of December 30, 2016, we had long-term fixed-rate debt obligations. The fair value of these obligations is impacted by changes in interest rates; however, a 10 percent change in interest rates for our long-term fixed-rate debt obligations at December 30, 2016 would not have had a material impact on the fair value of these obligations. Additionally, there is no interest-rate risk associated with these obligations on our results of operations and cash flows, because the interest rates are fixed and because our long-term fixed-rate debt is not putable to us (i.e. not required to be redeemed by us prior to maturity). We can give no assurances, however, that interest rates will not change significantly or have a material effect on the fair value of our long-term debt obligations over the next twelve months.

As of December 30, 2016, we also had long-term variable-rate debt obligations of $585 million under our senior unsecured term loan facility in connection with our acquisition of Exelis, comprised of term loans of $284 million in a 3-year tranche and $301 million in a 5-year tranche. These term loans bear interest that is variable based on certain short-term indices, thus exposing us to interest-rate risk; however, a 10 percent change in interest rates for these term loans would not have had a material impact on our results of operations or cash flows. For each tranche of term loans, we are required to make quarterly principal amortization payments equal to 2.50 percent of the $650 million initial principal amount of such tranche of the term loans. We have the ability at any time or from time to time to voluntarily prepay term loans of either tranche in whole or in part without premium or penalty. We did not make voluntary repayments of principal on our term loans during the two quarters ended December 30, 2016.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures: We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rule 13a-15 under the Exchange Act, as of the end of the second quarter of fiscal 2017, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on this work and other evaluation procedures, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that as of the end of the second quarter of fiscal 2017 our disclosure controls and procedures were effective.

(b) Changes in Internal Control: We periodically review our internal control over financial reporting as part of our efforts to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In addition, we routinely review our system of internal control over financial reporting to identify potential changes to our processes and systems that may improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating the activities of business units, migrating certain processes to our shared services organizations, formalizing policies and procedures, improving segregation of duties and increasing monitoring controls. In addition, when we acquire new businesses, we incorporate our controls and procedures into the acquired business as part of our integration activities. As part of our integration of Exelis, we remain in the process of incorporating our controls and procedures with respect to Exelis operations, and we included internal controls with respect to Exelis operations in our assessment of the effectiveness of our internal control over financial reporting as of the end of fiscal 2016. Other than continuing to incorporate our controls and procedures with respect to Exelis operations, there have been no changes in our internal control over financial reporting that occurred during the second quarter of fiscal 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

General. From time to time, as a normal incident of the nature and kind of businesses in which we are, and were, engaged, various claims or charges are asserted and litigation or arbitration is commenced by or against us arising from or related to matters, including, but not limited to: product liability; personal injury; patents, trademarks, trade secrets or other intellectual property; labor and employee disputes; commercial or contractual disputes; strategic acquisitions or divestitures; the prior sale or use of former products allegedly containing asbestos or other restricted materials; breach of warranty; or environmental matters. Claimed amounts against us may be substantial, but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals for losses related to those matters against us that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are expensed when incurred. Although it is not feasible to predict the outcome of these matters with certainty, it is reasonably possible that some lawsuits, claims or proceedings may be disposed of or decided unfavorably to us and in excess of the amounts currently accrued. Based on available information, in the opinion of management, settlements, arbitration awards and final judgments, if any, which are considered probable of being rendered against us in litigation or arbitration in existence at December 30, 2016 are reserved against or would not have a material adverse effect on our financial condition, results of operations or cash flows.

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

Item 1A. Risk Factors.

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, results of operations, financial condition and cash flows as set forth under Item 1A. “Risk Factors” in our Fiscal 2016 Form 10-K. We do not believe that there have been any material changes to the risk factors previously disclosed in our Fiscal 2016 Form 10-K. We may disclose changes to such risk factors or disclose additional risk factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material may also adversely impact our business, results of operations, financial condition and cash flows.

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

Issuer Purchases of Equity Securities

During the second quarters of fiscal 2017 and fiscal 2016, we did not repurchase any shares of our common stock under our repurchase program. The level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time. Shares repurchased by us are cancelled and retired. The following table sets forth information with respect to repurchases by us of our common stock during the second quarter of fiscal 2017:

Period*	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (1)	Maximum approximate dollar value of shares that may yet be purchased under the plans or programs (1)
Month No. 1 (October 1, 2016-October 28, 2016)				
Repurchase Programs (1)		—	—	$ 584,053,878
Employee Transactions (2)	8,097	$ 90.85	—	—
Month No. 2 (October 29, 2016-November 25, 2016)				
Repurchase Programs (1)		$ —	—	$ 584,053,878
Employee Transactions (2)	10,746	$ 97.32	—	—
Month No. 3 (November 26, 2016-December 30, 2016)				
Repurchase Programs (1)		—	—	$ 584,053,878
Employee Transactions (2)	6,625	$ 104.27	—	—
Total	25,468	$ 97.07	—	$ 584,053,878

* Periods represent our fiscal months.

(1) On August 26, 2013, we announced that on August 23, 2013, our Board of Directors approved a new share repurchase program (our “2013 Repurchase Program”) authorizing us to repurchase up to $1 billion in shares of our common stock through open-market transactions, private transactions, transactions structured through investment

banking institutions or any combination thereof. As of December 30, 2016, $584,053,878 (as reflected in the table above) was the approximate dollar amount of our common stock that may yet be purchased under our 2013 Repurchase Program, which does not have a stated expiration date. On February 2, 2017, we announced that on January 26, 2017, our Board of Directors approved a new share repurchase program (our “2017 Repurchase Program”) authorizing us to repurchase up to $1 billion in shares of our common stock through open-market purchases, private transactions, transactions structured through investment banking institutions or any combination thereof. Our 2017 Repurchase Program is in addition to our 2013 Repurchase Program and also does not have a stated expiration date. The level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time.

(2) Represents a combination of (a) shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of performance units, restricted stock units or restricted shares that vested during the quarter or (b) performance units, restricted stock units or restricted shares returned to us upon retirement or employment termination of employees. Our equity incentive plans provide that the value of shares delivered to us to pay the exercise price of options or to cover tax withholding obligations shall be the closing price of our common stock on the date the relevant transaction occurs.

Sales of Unregistered Equity Securities

During the second quarter of fiscal 2017, we did not issue or sell any unregistered equity securities.

Item 3. Defaults Upon Senior Securities.

Not Applicable.

Item 4. Mine Safety Disclosures.

Not Applicable.

Item 5. Other Information.

Not Applicable.

Item 6. Exhibits.
The following exhibits are filed herewith or incorporated by reference to exhibits previously filed with the SEC:

(3)	(a) Restated Certificate of Incorporation of Harris Corporation (1995), as amended, incorporated herein by reference to Exhibit 3(a) to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2012. (Commission File Number 1-3863)
	(b) By-Laws of Harris Corporation, as amended and restated effective December 5, 2014, incorporated herein by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on December 8, 2014. (Commission File Number 1-3863)
(10)	*(a) Harris Corporation 2015 Equity Incentive Plan Non-Employee Director Restricted Share Award Agreement Terms and Conditions (As of December 4, 2015).
	*(b) Amendment Number Two to the Harris Corporation 2005 Supplemental Executive Retirement Plan (as Amended and Restated effective November 28, 2011), dated December 16, 2016.
	*(c) Amendment Number Six to the Harris Corporation Retirement Plan (as Amended and Restated effective January 1, 2016), effective November 1, 2016 and dated December 16, 2016.
	*(d) Amendment Number Seven to the Harris Corporation Retirement Plan (as Amended and Restated effective January 1, 2016), effective January 1, 2017 and dated December 16. 2016.
	*(e) Amendment to the Exelis Excess Pension Plan IA (as Amended and Restated as of October 31, 2011), dated December 16, 2016.
	*(f) Amendment to the Exelis Excess Pension Plan IIA (as Amended and Restated as of October 31, 2011), dated December 16, 2016.
	*(g) Amendment to the Exelis Excess Pension Plan IB (as Amended and Restated as of October 31, 2011), dated December 16, 2016.
	*(h) Amendment to the Exelis Pension Plan IIB (as Amended and Restated as of October 31, 2011), dated December 16, 2016.
	*(i) Amendment to the Exelis Salaried Retirement Plan (as Amended and Restated effective January 1, 2014), dated December 16, 2016.
(12)	Computation of Ratio of Earnings to Fixed Charges.
(15)	Letter Regarding Unaudited Interim Financial Information.
(31.1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
(31.2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
(32.1)	Section 1350 Certification of Chief Executive Officer.
(32.2)	Section 1350 Certification of Chief Financial Officer.
(101.INS)	XBRL Instance Document.
(101.SCH)	XBRL Taxonomy Extension Schema Document.
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document.
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document.
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document.
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*Management contract or compensatory plan or arrangement

SIGNATURE

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

	HARRIS CORPORATION (Registrant)
Date: February 3, 2017	By: /s/ Rahul Ghai Rahul Ghai Senior Vice President and Chief Financial Officer (principal financial officer and duly authorized officer)

EXHIBIT INDEX

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