

HARRIS CORP /DE/
Form 10-Q
October 26, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 28, 2018

or

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

For the transition period from _____ to _____
Commission File Number: 1-3863

HARRIS CORPORATION

(Exact name of registrant as specified in its charter)

Delaware 34-0276860

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1025 West NASA Boulevard 32919
Melbourne, Florida
(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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the registrant's common stock as of October 19, 2018 was 117,658,904 shares.

HARRIS CORPORATION
FORM 10-Q
For the Quarter Ended September 28, 2018
INDEX

	Page
Part I. Financial Information:	
Item 1. Financial Statements (Unaudited):	
Condensed Consolidated Statement of Income for the Quarter Ended September 28, 2018 and September 29, 2017	<u>1</u>
Condensed Consolidated Statement of Comprehensive Income for the Quarter Ended September 28, 2018 and September 29, 2017	<u>2</u>
Condensed Consolidated Balance Sheet at September 28, 2018 and June 29, 2018	<u>3</u>
Condensed Consolidated Statement of Cash Flows for the Quarter Ended September 28, 2018 and September 29, 2017	<u>4</u>
Condensed Consolidated Statement of Equity for the Quarter Ended September 28, 2018 and September 29, 2017	<u>5</u>
Notes to Condensed Consolidated Financial Statements	<u>6</u>
Report of Independent Registered Public Accounting Firm	<u>25</u>
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>26</u>
Item 3. Quantitative and Qualitative Disclosures About Market Risk	<u>37</u>
Item 4. Controls and Procedures	<u>37</u>
Part II. Other Information:	
Item 1. Legal Proceedings	<u>39</u>
Item 1A. Risk Factors	<u>39</u>
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	<u>40</u>
Item 3. Defaults Upon Senior Securities	<u>40</u>
Item 4. Mine Safety Disclosures	<u>40</u>
Item 5. Other Information	<u>41</u>
Item 6. Exhibits	<u>41</u>
Signature	<u>42</u>
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	
	September 28, 2018	September 29, 2017
	(In millions, except per share amounts)	
Revenue from product sales and services	\$1,542	\$ 1,410
Cost of product sales and services	(1,010)	(919)
Engineering, selling and administrative expenses	(279)	(268)
Non-operating income	47	46
Interest income	1	—
Interest expense	(44)	(41)
Income from continuing operations before income taxes	257	228
Income taxes	(41)	(63)
Income from continuing operations	216	165
Discontinued operations, net of income taxes	(3)	(6)
Net income	\$213	\$ 159
Net income per common share		
Basic		
Continuing operations	\$1.82	\$ 1.39
Discontinued operations	(0.01)	(0.06)
	\$1.81	\$ 1.33
Diluted		
Continuing operations	\$1.78	\$ 1.36
Discontinued operations	(0.01)	(0.05)
	\$1.77	\$ 1.31
Cash dividends paid per common share	\$0.685	\$ 0.570
Basic weighted average common shares outstanding	117.9	119.1
Diluted weighted average common shares outstanding	120.6	121.2

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

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

	Quarter Ended September 28, 2018	September 29, 2017
	(In millions)	
Net income	\$ 213	\$ 159
Other comprehensive income:		
Foreign currency translation gain, net of income taxes	—	25
Net unrealized gain on hedging derivatives, net of income taxes	1	1
Net unrecognized loss on postretirement obligations, net of income taxes	(1)	—
Other comprehensive income, net of income taxes	—	26
Total comprehensive income	\$ 213	\$ 185

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

HARRIS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEET
 (Unaudited)

	September 28, 2018	June 29, 2018
	(In millions, except shares)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 305	\$ 288
Receivables	432	466
Contract assets	870	782
Inventories	413	411
Income taxes receivable	151	174
Other current assets	117	103
Total current assets	2,288	2,224
Non-current Assets		
Property, plant and equipment	898	900
Goodwill	5,373	5,372
Other intangible assets	960	989
Non-current deferred income taxes	117	119
Other non-current assets	253	247
Total non-current assets	7,601	7,627
	\$ 9,889	\$ 9,851
Liabilities and Equity		
Current Liabilities		
Short-term debt	\$ 294	\$ 78
Accounts payable	480	622
Contract liabilities	410	372
Compensation and benefits	125	142
Other accrued items	321	317
Income taxes payable	21	15
Current portion of long-term debt, net	305	304
Total current liabilities	1,956	1,850
Non-current Liabilities		
Defined benefit plans	674	714
Long-term debt, net	3,410	3,408
Non-current deferred income taxes	84	79
Other long-term liabilities	521	522
Total non-current liabilities	4,689	4,723
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 117,611,536 shares at September 28, 2018 and 118,280,120 shares at June 29, 2018	118	118
Other capital	1,648	1,714
Retained earnings	1,680	1,648
Accumulated other comprehensive loss	(202) (202)
Total shareholders' equity	3,244	3,278
	\$ 9,889	\$ 9,851

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

3

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

	Quarter Ended	
	September 28, 2018	September 29, 2017
	(In millions)	
Operating Activities		
Net income	\$213	\$ 159
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of acquisition-related intangibles	29	28
Depreciation and other amortization	36	37
Share-based compensation	38	11
Pension income	(38)	(34)
(Increase) decrease in:		
Accounts receivable	34	(54)
Contract assets	(88)	(59)
Inventories	(3)	(24)
Increase (decrease) in:		
Accounts payable	(141)	(88)
Contract liabilities	38	18
Income taxes	37	125
Other	(38)	(24)
Net cash provided by operating activities	117	95
Investing Activities		
Net additions of property, plant and equipment	(31)	(23)
Net cash used in investing activities	(31)	(23)
Financing Activities		
Proceeds from borrowings	216	—
Repayments of borrowings	—	(35)
Proceeds from exercises of employee stock options	15	14
Repurchases of common stock	(200)	(75)
Cash dividends	(82)	(69)
Other financing activities	(18)	(9)
Net cash used in financing activities	(69)	(174)
Effect of exchange rate changes on cash and cash equivalents	—	6
Net increase (decrease) in cash and cash equivalents	17	(96)
Cash and cash equivalents, beginning of year	288	484
Cash and cash equivalents, end of quarter	\$305	\$ 388

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

HARRIS CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENT OF EQUITY
 (Unaudited)

	Common Stock	Other Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Equity
(In millions, except per share amounts)					
Balance at June 30, 2017	\$120	\$1,741	\$1,318	\$ (276)	\$2,903
Net income	—	—	159	—	159
Other comprehensive income	—	—	—	26	26
Shares issued under stock incentive plans	—	14	—	—	14
Share-based compensation expense	—	11	—	—	11
Repurchases and retirement of common stock	(1)	(73)	(48)	—	(122)
Forward contract component of accelerated share repurchase	—	38	—	—	38
Cash dividends (\$.570 per share)	—	—	(69)	—	(69)
Balance at September 29, 2017	\$119	\$1,731	\$1,360	\$ (250)	\$2,960
Balance at June 29, 2018	\$118	\$1,714	\$1,648	\$ (202)	\$3,278
Net income	—	—	213	—	213
Shares issued under stock incentive plans	1	15	—	—	16
Shares issued under defined contribution plans	—	23	—	—	23
Share-based compensation expense	—	14	—	—	14
Repurchases and retirement of common stock	(1)	—	—	—	—