HARRIS CORP /DE/
Form 10-K
August 27, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 29, 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 Melbourne, Florida	32919
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (321) 727-9100
Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1.00 per share	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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	þ	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	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. ¨

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant was $16,750,877,977 (based on the quoted closing sale price per share of the stock on the New York Stock Exchange) on the last business day of the registrant's most recently completed second fiscal quarter (December 29, 2017). For purposes of this calculation, the registrant has assumed that its directors and executive officers as of December 29, 2017 are affiliates.

The number of shares outstanding of the registrant's common stock as of August 24, 2018 was 117,322,936.

Documents Incorporated by Reference:

Portions of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Shareholders scheduled to be held on October 26, 2018, which will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended June 29, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

HARRIS CORPORATION
ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED JUNE 29, 2018
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This Annual Report on Form 10-K contains trademarks, service marks and registered marks of Harris Corporation and its subsidiaries. Bluetooth® is a registered trademark of Bluetooth SIG, Inc. All other trademarks are the property of their respective owners.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K (this “Report”), including “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations,” contains forward-looking statements that involve risks and uncertainties, as well as assumptions that may not materialize or prove correct, which 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; future political conditions; the outcome of contingencies; the potential level of share repurchases, dividends or pension contributions; potential acquisitions or divestitures; the value of 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,” “could,” “should,” “would,” “will,” “intends,” “plans,” “estimates,” “anticipates,” “projects” and similar words or expressions. You sho place undue reliance on these forward-looking statements, which reflect our management’s opinions only as of the date of filing of this Report and are not guarantees of future performance or actual results. Factors that might cause our results to differ materially from those expressed in or implied by these forward-looking statements, from our current expectations or projections or from our historical results include, but are not limited to, those discussed in “Item 1A. Risk Factors” of this Report. All forward-looking statements are qualified by, and should be read in conjunction with, those risk factors. 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”), and are made as of the date of filing of this Report, and we disclaim any intention or obligation, other than imposed by law, to update or revise any forward-looking statements, whether as a result of new information, future events or developments or otherwise, after the date of filing of this Report or, in the case of any document incorporated by reference, the date of that document.

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

PART I

ITEM 1. BUSINESS.

HARRIS

Harris Corporation, together with its subsidiaries, is a leading technology innovator, solving customers’ toughest mission-critical challenges by providing solutions that connect, inform and protect. We support government and commercial customers in more than 100 countries, with our largest customers being various departments and agencies of the U.S. Government and their prime contractors. Our products, systems and services have defense and civil government applications, as well as commercial applications. As of the end of fiscal 2018, we had approximately 17,500 employees, including approximately 7,900 engineers and scientists.

Harris Corporation was incorporated in Delaware in 1926 as the successor to three companies founded in the 1890s. Our principal executive offices are located at 1025 West NASA Boulevard, Melbourne, Florida 32919, and our telephone number is (321) 727-9100. Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “HRS.” Unless the context otherwise requires, the terms “we,” “our,” “us,” “Company” and “Harris” as used in this Re refer to Harris Corporation and its subsidiaries.

General

We structure our operations primarily around the products, systems and services we sell and the markets we serve, and we report the financial results of our continuing operations in the following three reportable segments, which are also referred to as our business segments:

- Communication Systems, serving markets in tactical communications and defense products, including tactical ground and airborne radio communications solutions and night vision technology, and in public safety networks;
- Electronic Systems, providing electronic warfare, avionics, and command, control, communications, computers, intelligence, surveillance and reconnaissance (“C4ISR”) solutions for defense and classified customers and mission-critical communication systems for civil and military aviation and other customers; and

- Space and Intelligence Systems, providing intelligence, space protection, geospatial, complete Earth observation, universe exploration, positioning, navigation and timing (“PNT”), and environmental solutions for national security, defense, civil and commercial customers, using advanced sensors, antennas and payloads, as well as ground processing and information analytics.

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Financial Information About Our Business Segments

Financial information with respect to our business segments, including revenue, operating income and total assets, and with respect to our operations outside the United States, is contained in Note 22: Business Segments in the Notes to Consolidated Financial Statements in this Report (the “Notes”) and is incorporated herein by reference.

Recent Divestitures

The following paragraphs summarize recent divestitures. For additional information related to divestitures, some of which were reported as discontinued operations, see Note 3: Discontinued Operations and Divestitures in the Notes. Our historical financial results for all periods presented in this Report have been restated to account for businesses reported as discontinued operations in this Report. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in this Report relate solely to our continuing operations.

Divestiture of Government IT Services Business. On April 28, 2017, we completed the divestiture to an affiliate of Veritas Capital Management, L.L.C. (“Veritas”) of our government information technology (“IT”) services business (“IT Services”), which primarily provided IT and engineering managed services to U.S. Government customers, for net cash proceeds of $646 million, after transaction expenses and purchase price adjustments in respect of net cash and working capital as set forth in the definitive sale agreement. The decision to divest IT Services was part of our strategy to simplify our operating model to focus on technology-differentiated, high-margin businesses. IT Services was part of our former Critical Networks segment and is reported as discontinued operations in this Report. In connection with entering into the definitive agreement to sell IT Services, as described above, our other remaining operations that had been part of our former Critical Networks segment, including our air traffic management business, primarily serving the Federal Aviation Administration (“FAA”), and our Pacific Missile Range Facility (“PMRF”) program, were integrated with our Electronic Systems segment effective for the third quarter of fiscal 2017, and our Critical Networks segment was eliminated.

Divestiture of Harris CapRock Communications Commercial Business. On January 1, 2017, we completed the divestiture to SpeedCast International Ltd. (“SpeedCast”) of our Harris CapRock Communications commercial business (“CapRock”), which provided wireless, terrestrial and satellite communications services to energy and maritime customers, for net cash proceeds of $368 million, after transaction expenses and purchase price adjustments in respect of net cash and working capital as set forth in the definitive sale agreement. The decision to divest CapRock was part of our strategy to simplify our operating model to focus on technology-differentiated, high-margin businesses. CapRock was part of our former Critical Networks segment and is reported as discontinued operations in this Report.

Divestiture of Composite Aerostructures Business. On April 8, 2016, we completed the divestiture of our composite aerostructures business (“Aerostructures”), which designed and manufactured technically advanced, lightweight composite aerospace assembly structures, sub-assemblies and components for defense and commercial industries. Aerostructures was not strategic to our business and was part of our Company as a result of our acquisition of publicly-held Exelis, Inc. (collectively with its subsidiaries, “Exelis”) in May 2015. The operating results of Aerostructures through the date of divestiture are reported as part of our Electronic Systems segment.

Divestiture of Broadcast Communications Business. In the fourth quarter of fiscal 2012, our Board of Directors approved a plan to divest our broadcast communications business (“Broadcast Communications”), which provided digital media management solutions in support of broadcast customers, pursuant to which Broadcast Communications was reported as discontinued operations. In the third quarter of fiscal 2013, we completed the sale of Broadcast Communications to an affiliate of The Gores Group, LLC (“Gores”). In the third quarter of fiscal 2016, a nationally recognized accounting firm previously appointed by us and Gores rendered its final determination as to a dispute between us and Gores over the amount of the post-closing working capital adjustment to the purchase price, and consequently, we recorded the related activity in discontinued operations for fiscal 2016.

Description of Business by Segment

Communication Systems

Communication Systems serves markets in tactical communications and defense products, including tactical ground and airborne radio communications solutions and night vision technology, and in public safety networks.

Tactical Communications: We are a leading global supplier of secure radio communications, tactical communication networks and embedded high-grade encryption solutions for a diverse portfolio of U.S. military and allied international forces and commercial customers. We design, develop and manufacture a comprehensive line of current and next-generation secure and protected radio communications products and systems, with capabilities to operate across numerous radio frequency bands and using an extensive range of waveforms. Our radio systems are highly flexible, interoperable and capable of supporting diverse mission requirements. Our tactical radios are built on software-defined radio platforms that include “headroom” to add future capabilities through software upgrades and that also have the highest grade embedded encryption. Product capabilities include secure transmission of voice, high-speed data and full-motion video, including streaming video to the tactical edge of the battlefield. Supporting virtually all military domains, our products include handheld, manpack and vehicular, fixed-site and airborne form factors. Together, our products create a highly mobile, secure, reliable networked battlefield environment that connects land, air and sea echelons and does not rely on a fixed infrastructure. This networking capability allows warfighters, for example, to remain connected to each other and their command structures and support organizations and to communicate information and maintain situational awareness of both friendly and opposing forces, which are critical to mission safety and success. Our radio systems have been widely deployed throughout all branches of the U.S. Department of Defense ("DoD") and have been sold to more than 100 countries through our international distribution channels, consisting of regional sales offices and a broad dealer network, becoming the standard in many of those countries.

Our next-generation radios include multiband, multi-channel, multi-mission, legacy-system compatible tactical radios that address the full range of current mission and interoperability requirements and are fully upgradeable to address future technical standards and mission requirements. Advances in these radios include the support of wideband networking waveforms, extended frequency range and significant reductions in size, weight and power compared with previous generations. Wideband networking capability enables enhanced situational awareness through high-bandwidth applications such as streaming video, simultaneous voice and data feeds, collaborative chat and connectivity to secure networks. Our comprehensive line of current and next-generation radios includes the following:

- Our widely deployed Single Channel Ground and Airborne Radio System ("SINCGARS") family of backpack, vehicle-mounted, handheld and airborne radios currently used by U.S. and allied military forces — these Combat Net Radios, over 600,000 of which have been purchased and deployed worldwide, operate in the very high frequency ("VHF") band, have single-frequency and frequency-hopping modes, handle voice and data communications and are designed to be reliable, secure and easily maintained.
- Our multiband manpack radio, the AN/PRC-117G, which is National Security Agency ("NSA") Type-1-certified for narrowband communications, as well as for wideband communications using our Harris-developed Adaptive Networking Wideband waveform and the U.S. military Joint Tactical Radio System ("JTRS") Soldier Radio Waveform and Mobile User Objective System ("MUOS") waveform, which provides connectivity to DoD's next-generation MUOS satellite system;
- Our multiband handheld radios, the AN/PRC-152, which is a widely fielded JTRS-approved software-defined handheld radio, and the AN/PRC-152A, which adds wideband, networked communications capability and supports both a full range of narrowband legacy waveforms and wideband networking waveforms in a handheld platform;
- Our multi-channel manpack radio, the AN/PRC-158, which is a commercially developed, NSA Type-1-certified radio offering two channels integrated into the same chassis;
- Our wideband rifleman team radio, the RF-330E, which is the commercially developed U.S. variant of our widely fielded international soldier personal radio;
- Our wideband ground radio family for international customers, the RF-7850x, which covers all echelons of the battlefield with soldier handheld, vehicular and fixed-site radio products;
- Our wideband high frequency ("HF") manpack radios, the NSA Type-1-certified RF-300H for the U.S. military and the RF-7800H for international customers, which are wideband-capable tactical HF radios that are smaller, lighter and deliver data faster than prior generations of HF radios and can serve as an alternative for beyond-line-of-sight transmission of classified images, maps and other large data files in circumstances where satellite communication ("SATCOM") is denied;
- Our single-channel airborne radios, which include the NSA Type-1-certified RF-300M-DL Small Secure Data Link multiband radio for integration in size, weight and power-constrained environments, as well as the ARC-201D and ARC-201E radios for DoD and international VHF network interoperability; and
- Our multi-channel airborne radios, which include the RF-7850A for interoperability with our RF-7800 family of international ground radios, as well as a 2-channel airborne radio platform we provide to ViaSat, Inc. to be built into the KOR-24A multi-channel, Link-16 Small Tactical Terminal.

We operate in this market principally on a "commercial" market-driven business model. We leverage our deep customer relationships to anticipate market needs and then invest our internal research and development resources, build to our internal forecast and provide ready-to-ship, commercial off-the-shelf ("COTS") products to customers. This enables us to adapt to changing customer requirements, innovate and drive differentiation and bring products to market faster.

We believe that the need to connect disparate networks using Internet Protocol (“IP”)-based technology is driving a modernization cycle in the U.S. and internationally. We believe our business model, which drives speed and innovation, coupled with the scale provided by our international presence, will continue to make us competitive in the global market.

We have been investing to position ourselves for tactical radio modernization opportunities, including in our next-generation manpack and handheld solutions for the JTRS Handheld, Manpack and Small Form Fit (“HMS”) program and U.S. Special Operations Command (“SOCOM”) Special Operations Forces Tactical Communications (“STC”) programs, and for opportunities in manned and unmanned airborne applications from demand for extending ground tactical networks to the air.

Examples of significant recent contract awards for us include the following:

- A 5-year, single-award Indefinite Delivery Indefinite Quantity ("IDIQ") contract from the U.S. Navy in fiscal 2018 for HF and multiband handheld and manpack radio systems and accessories;
- A 5-year, sole source IDIQ contract from the U.S. Air Force in fiscal 2018 to develop and deliver Handheld Video Data-Link ("HH-VDL") radios;
- A 5-year, single-award contract from the Australian Defence Forces in fiscal 2018 for integrated network modernization;
- A 6-year, single-award IDIQ contract from SOCOM in fiscal 2017 to supply next-generation multi-channel multiband manpack radios to enable superior communications for U.S. Special Operations Forces;
- A 5-year, single-award IDIQ contract from the U.S. Defense Logistics Agency in fiscal 2017 to provide tactical radio spare parts to the U.S. Army and Federal civilian agencies;
- A 10-year (5-year base, one 5-year option), multi-award IDIQ contract from the U.S. Air Force in fiscal 2017 for cryptographic and information assurance products;
- A 10-year (5-year base, one 5-year option), multi-award IDIQ contract from the U.S. Army in fiscal 2016 for multi-channel manpack radios under the HMS program;
- A 6-year, single-award IDIQ contract from SOCOM in fiscal 2016 for a new integrated 2-channel handheld tactical radio;
- A 5-year, single-award follow-on foreign military sales IDIQ contract from the U.S. Army Communications-Electronics Command ("CECOM") in fiscal 2016 to supply secure tactical communication solutions;
- A 5-year, single-award foreign military sales IDIQ contract from CECOM in fiscal 2016 to supply SINCGARS tactical solutions; and
- A 10-year (5-year base, one 5-year option), multi-award IDIQ contract from the U.S. Army in fiscal 2015 for rifleman radios and associated services under the HMS program.

Night Vision: We are a global supplier of high-performance, vision-enhancing products for U.S. and allied military and security forces and commercial customers. We design, develop and manufacture Generation 3 image intensification technology products, including:

- Our AN/PVS-14 and AN/PVS-7 ground night vision goggles and spare image intensifier tubes;
- Our AN/AVS-6 and AN/AVS-9 aviation night vision goggles, which provide rotary- and fixed-wing aircraft pilots the ability to operate in extreme low-light situations;
- Our Enhanced Night Vision Goggles ("ENVG"), Spiral ENVG and Tactical Mobility Night Vision Goggles that use our sensor fusion technology to overlay image intensification imagery with thermal imagery, which enables users to effectively operate in extreme low-light and obscured battlefield conditions; and
- Our soldier system platform, which combines night vision, augmented reality, live video and broadcast capabilities into one system, enabling enhanced soldier situational awareness and connection to the battlefield network.

Public Safety and Professional Communications: We are a global supplier of critical communication solutions offering current and next-generation public safety radios, mission-critical networks and LTE-ready devices and applications for Federal, state and local public safety, utility, commercial and transportation organizations. We design, build, supply and maintain wireless communications systems, including digital trunked, statewide, multi-agency systems for public safety communications and large, wide-area and multi-state land mobile radio ("LMR") and RF systems for some of the largest utility companies in the U.S. Our Voice, Interoperability, Data and Access ("VIDA") network platform is a unified IP-based voice and data communication system that provides network-level interoperable communications among public safety agencies by supporting a full line of communication systems, including Association of Public Safety Communications Officials - International P25 ("P25") industry-wide open standard technology. Our VIDA® network solutions currently serve as the backbone in some of the largest and most advanced statewide and regional communication networks in North America. We also are investing in next-generation, secure public safety-grade Long Term Evolution ("LTE") solutions for voice, video and data applications.

We offer a full range of single-band LMR terminals, as well as multiband radios that include a handheld radio and a full-spectrum mobile radio for vehicles. Our multiband, multi-mode radios cover all public safety frequency bands in a single radio that is able to communicate across multiple organizations, jurisdictions and agencies operating on different frequencies and systems. Our multiband radios operate on P25 conventional and trunked systems and have a software-defined radio architecture that allows flexibility for future growth, including upgrading to P25 Phase 2, the next-generation standard for mission-critical communications. These radios also include advanced capabilities, such as an internal Global Positioning System receiver for situational awareness, internal secure Bluetooth® wireless technology and background noise suppression features. Our XL-200P multiband, handheld radio adds WiFi, WiFi Hotspot and LTE capabilities, as well as push-to-talk voice over IP in both WiFi and LTE, to P25/LMR capabilities and provides first responders the ability to communicate outside of their LMR coverage jurisdiction.

We also offer our Symphony™ dispatch console system, which features a space-saving hardware platform and an advanced, customizable user interface to simplify workflow and enhance efficiencies. Our BeOn® secure group communications application is designed to enable emergency response teams and public safety users to connect seamlessly to the network backbone of many LMR systems from a smartphone, tablet or personal computer for P25 push-to-talk interoperability without the added expense of an additional LMR terminal.

Revenue, Operating Income and Backlog: Revenue for our Communication Systems segment in fiscal 2018, 2017 and 2016 was $1,903 million, $1,753 million and $1,864 million, respectively. Segment operating income in fiscal 2018, 2017 and 2016 was $571 million, $524 million and $522 million, respectively. The percentage of our revenue contributed by this segment in fiscal 2018, 2017 and 2016 was 31 percent, 30 percent and 31 percent, respectively. The percentage of this segment's revenue in fiscal 2018 that was derived outside of the U.S. was approximately 48 percent. The percentage of this segment's revenue in fiscal 2018 that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 48 percent. For a general description of our U.S. Government contracts and subcontracts, including a discussion of revenue generated thereunder and of cost-reimbursable versus fixed-price contracts, see "Item 1. Business - Principal Customers; Government Contracts" of this Report.

In general, this segment's domestic products and services are sold directly to customers through its sales organization and through established distribution channels. Internationally, this segment markets and sells its products and services through regional sales offices and established distribution channels. For a general description of our international business, see "Item 1. Business - International Business" of this Report.

The funded backlog for this segment at the end of fiscal 2018, 2017 and 2016 was approximately $1.5 billion, $1.1 billion and $1.0 billion, respectively. Additional information regarding funded backlog is provided under "Item 1. Business - Funded Backlog" of this Report. For a discussion of certain risks affecting this segment, including risks relating to our U.S. Government contracts and subcontracts, see "Item 1. Business - Principal Customers; Government Contracts," "Item 1A. Risk Factors" and "Item 3. Legal Proceedings" of this Report.

Electronic Systems

Electronic Systems provides electronic warfare, avionics and C4ISR solutions for defense and classified customers and mission-critical communication systems for civil and military aviation and other customers. Many of our Electronic Systems segment solutions include reliable, resilient and innovative cyber capabilities.

We design, develop, produce and supply advanced electronic warfare solutions for airborne, maritime and ground applications to the U.S. military, classified customers and allied nations. Our electronic warfare capabilities include threat identification for situational awareness; electronic countermeasures for self-protection, whether installed as part of the platform or offboard as decoys and expendables; electronic attack; and counter-improvised explosive devices ("IEDs"). We have provided electronic warfare solutions for strategic and tactical fixed-wing and rotary aircraft such as the F/A-18E/F Super Hornet ("F/A-18"), F-16, B1-B, B-52, MC-130H, AC-130U, MH-60, MH-47 and CV-22 aircraft, as well as maritime electronic support measures ("ESM") for surface and subsurface vessels. In addition, we provide high-performance radar systems for defense and air traffic management ("ATM") surveillance and precision approach radar.

Examples of our electronic warfare technology include:

Airborne

- Our advanced integrated defense electronic warfare systems ("AIDEWS") that provide integrated and podded self-protection and jamming;
- Our integrated defensive electronic countermeasures ("IDECM") system for the F/A 18;

Maritime

- Our minesweeping systems and mine countermeasures that detect and neutralize subsurface threats;
- Our transducer arrays that are used in sonar and acoustic systems to support navigation and situational awareness as well as anti-submarine and torpedo self-defense;

Ground

- Our counter-radio controlled IED technology that protects ground forces in asymmetrical combat environments by continually scanning for threatening radio frequency signals and denying enemy use of those portions of the electromagnetic spectrum, without disrupting friendly signals and keeping lines of communication open;

- Our land-based surveillance radar that provides three-dimensional radar capability for airborne defensive surveillance for the U.S. Navy; and
- Our state-of-the-art wireless voice and data products and solutions.

We have decades of experience designing, testing and integrating advanced avionics equipment, electronics and software, including cockpit communications, digital maps, processors, sensors, data buses, fiber optics, microelectronics and conformal wideband antennas. We are a supplier of avionics systems and products on a variety of aircraft platforms, including the F-35 Lightning II ("F-35") and the F/A-18. For F-35 and F/A-18 aircraft, we provide high-performance, advanced avionics such as high-speed fiber optic networking and switching, image processing, digital map software and other electronic components, including Multifunction Advanced Data Link communication subsystems primarily intended for stealth platform air-to-air communications with other network nodes without revealing positions. Our advanced antenna technologies provide communication, navigation, direction-finding and electronic warfare capabilities for military aircraft.

We design and produce aircraft carriage and release equipment and weapons interface systems for fighter jets, surveillance aircraft and unmanned aerial vehicles for U.S. and allied military forces. Our carriage and release technology, including current pyrotechnic and next-generation pneumatic and electronically actuated release systems, allow aircraft to successfully deliver mission payloads and support a variety of aircraft stores, including weapons, sonobuoys, electronics pods, fuel tanks and unmanned vehicles. Our racks and launchers are components on aircraft including the F-35, F-22 Raptor, F/A-18, F-15E Strike Eagle, F-16 Fighting Falcon, P-8A Poseidon and MQ-9 Reaper. Our control electronics provide aircraft with the ability to communicate directly with smart and precision-guidance payloads and create compatibility between a wide range of stores and platforms.

We provide C4ISR solutions based on our major technology capabilities that include terrestrial SATCOM terminals; platform integration for battle management systems; advanced ground robotics; weapon and missile defense data-links; and naval acoustic sensors and systems. Our SATCOM terminals connect forces with communication satellites to deliver mission-critical data, including high-resolution imagery and video requiring enormous bandwidth, securely and reliably to any platform. As an example, under the U.S. Army Modernization of Enterprise Terminals ("MET") program, we developed next-generation large satellite Earth stations to provide the worldwide backbone for high-priority military communications and missile defense systems and to support IP and dedicated circuit connectivity within the Global Information Grid, providing critical reach-capability for the warfighter. We also serve as a platform integrator for battle management systems for U.S. and allied military forces in order to integrate data from a variety of platforms and sensors in support of the planning and execution of operations, including terrain analysis, route management and global distribution of tactical and operational information, and to help military forces digitize their operations, providing a continuous, real-time platform for situational awareness and staff functions, including hostile and Blue Force Tracking, radio communications, planning, personnel, intelligence, local weather and other data. For example, we are providing an integrated battle management system to the United Arab Emirates Armed Forces for the Emirates Command & Control System Land Tactical Systems ("BMS-ELTS") program. Our advanced ground robotics capabilities include ruggedized robots with a highly intuitive control interface, haptic feedback and human-like dexterity that support ISR, explosive ordnance disposal ("EOD") and hazardous material ("HAZMAT") missions. For example, we are providing our T7™ robotic system to the U.K. Ministry of Defence for its global EOD mission.

We design, develop and maintain high-reliability, secure and customized mission-critical communication systems that involve implementing and managing large, complex programs and integrating secure, advanced, standards-based communications and information processing technologies. These systems provide communications, surveillance and information management solutions for customers, including the FAA and other civil and military air navigation service providers ("ANSPs"), airports, airlines and system integrators.

We are the prime contractor and system architect for the FAA Telecommunications Infrastructure ("FTI") program and several major FAA Next Generation Air Transportation System ("NextGen") programs to transform and upgrade the National Airspace System ("NAS"), including the Automatic Dependent Surveillance-Broadcast ("ADS-B") program, the Data Communications Integrated Services and Data Communication Network Services ("Datacomm") program, the System-Wide Information Management ("SWIM") program and the Common Support Service Weather ("CSS-Wx") program. Under the FTI program, we designed, integrated and deployed, and now are operating and maintaining, the communications infrastructure for the U.S. air traffic control ("ATC") system, which is fully operational at approximately 4,500 FAA sites across the U.S., providing voice, data and video communications. We were awarded in fiscal 2018 a 15-year, systems integration contract to modernize India's ATM communications infrastructure.

We also provide several aviation products and services, including our Symphony® software suite that enables flight information display systems, resource allocations and environmental monitoring, and our OSYRIS Arrival

Manager/Departure Manager product to optimize airport and runway throughput.
In addition, we are providing MyFloridaNet-2, a state-wide secure communications network with about 4,000 sites connecting public safety, law enforcement and other state and local government agencies, under a 14-year (7-year base, 7-year option), single-award IDIQ contract from the State of Florida awarded in fiscal 2017.
Revenue, Operating Income and Backlog: Revenue for our Electronic Systems segment in fiscal 2018, 2017 and 2016 was $2,373 million, $2,251 million and $2,233 million, respectively. Segment operating income in fiscal 2018, 2017 and 2016 was $441 million, $464 million and $430 million, respectively. The percentage of our revenue contributed by this segment in fiscal 2018, 2017 and 2016 was 38 percent, 38 percent and 37 percent, respectively. The percentages of this segment's revenue

under contracts directly with end customers and under contracts with prime contractors in fiscal 2018 were approximately 68 percent and 32 percent, respectively. In fiscal 2018, this segment had a diverse portfolio of over 200 programs. Some of this segment's more significant programs in fiscal 2018 included FTI, F-35, F/A-18E/F, ADS-B, BMS-ELTS and MET. The percentages of this segment's revenue in fiscal 2018 represented by this segment's largest program by revenue and ten largest programs by revenue were approximately 13 percent and 51 percent, respectively. The percentage of this segment's revenue in fiscal 2018 that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 82 percent. For a general description of our U.S. Government contracts and subcontracts, including a discussion of revenue generated thereunder and of cost-reimbursable versus fixed-price contracts, see "Item 1. Business - Principal Customers; Government Contracts" of this Report.

The funded backlog for this segment was approximately $2.6 billion, $1.9 billion and $1.9 billion at the end of fiscal 2018, 2017 and 2016, respectively. Additional information regarding funded backlog is provided under "Item 1. Business - Funded Backlog" of this Report. For a discussion of certain risks affecting this segment, including risks relating to our U.S. Government contracts and subcontracts, see "Item 1. Business - Principal Customers; Government Contracts," "Item 1A. Risk Factors" and "Item 3. Legal Proceedings" of this Report.

Space and Intelligence Systems

Space and Intelligence Systems provides intelligence, space protection, geospatial, complete Earth observation, universe exploration, PNT, and environmental solutions for national security, defense, civil and commercial customers, using advanced sensors, antennas and payloads, as well as ground processing and information analytics. Many of our Space and Intelligence Systems segment solutions include reliable, resilient and innovative cyber capabilities.

We develop, supply and integrate communication and information processing products, systems and networks for a diverse base of classified programs, which comprise about two-thirds of this segment's revenue. Serving primarily U.S. Intelligence Community customers, including the NSA, the National Geospatial Intelligence Agency ("NGA"), the National Reconnaissance Office and the Defense Intelligence Agency, we provide integrated intelligence, surveillance and reconnaissance ("ISR") solutions that improve situational awareness and intelligence value to decision makers. In addition, we have advanced capabilities in the architecture, design and development of highly specialized satellite antennas, structures, phased arrays and on-board reconfigurable processors that are used to enable next-generation satellite systems to provide the U.S. military and Intelligence Community with strategic and tactical advantages. Although classified programs generally are not discussed in this Report, the operating results relating to classified programs are included in our Consolidated Financial Statements. We believe that the business risks associated with our classified programs do not differ materially from the business risks associated with our other U.S. Government programs.

To help our DoD customers gain, maintain and exploit space superiority, we provide the full spectrum of enterprise architecture services that support the long-term planning, development, integration and sustainment of highly advanced, mission-critical space-based and ground-based surveillance systems for space situational awareness. We also design, integrate and sustain space control systems. For example, we sustain, maintain and modernize large radar installations globally and provide engineering support and sustainment for ground-based systems that support U.S. missile warning, missile defense and space surveillance missions for the U.S. Air Force under the System Engineering and Sustainment Integrator ("SENSOR") program.

We are a leading provider of integrated real-time, autonomous geospatial solutions, extending from image and data collection through processing, exploitation and dissemination of actionable intelligence. Our specialized capabilities include highly reliable remote sensing systems for ground, air, sea and space; data encryption; information processing; real-time forensic and predictive analytics; content management; and system performance modeling and simulation. We also provide ground processing and analytics solutions that map and monitor Earth for a variety of government and commercial users.

Our geospatial solutions suite of products and services are designed to make it easier and more cost effective for customers to analyze the physical environment and obtain actionable information for more informed decisions, through advanced data collection sources, innovative software tools, and high-volume, high-accuracy processing services.

Our complete Earth observation solutions encompass comprehensive space, airborne, ground and sea remote sensing capabilities, from end-to-end remote sensing systems for global and regional situational awareness to integrated processing solutions on the ground and on airborne platforms that extract critical information and reduce time to high-confidence decisions. We specialize in remote sensing payloads that offer weather and environmental imagery, radar, video, tracking and multi-spectral information, as well as the processing, exploitation and dissemination of the data from these payloads to support our customers' missions.

Our environmental solutions monitor and evaluate our global environment with ground-based and space-based remote sensing, change detection and data processing. We design, develop and build instruments to help measure, understand and monitor real-time weather and environmental trends to support decision making for government agencies, scientists, businesses and policy makers. In space, advanced environmental satellite systems utilize our imagers and sounders to deliver weather and environmental data back to Earth at high resolutions and speeds. On the ground, our satellite ground data processing systems, consisting of suites of hardware and software, receive sensor data from satellites and turn it into actionable information. Our weather ground systems, for example, are capable of handling multiple missions simultaneously across a common architecture and enable users to maximize the benefits of our new environmental imaging technology.

An example of our capabilities is our complete, end-to-end solution under the National Oceanic and Atmospheric Administration ("NOAA") Geostationary Operational Environmental Satellite - Series R ("GOES-R") Ground and Antenna Segment weather programs. We designed, developed and delivered to NOAA the ground segment system that receives and processes satellite data, generates and distributes weather data to more than 10,000 direct users, and commands and controls the GOES-R satellites. We are also supplying antennas and control systems that will provide communication links for command, telemetry and sensor data, as well as the communication link to direct data users. Another example is the satellite sensors we are providing to measure pressure, moisture and thermal radiation for NASA's Joint Polar Satellite System program.

We are a global provider of PNT products, systems and solutions. For example, our U.S. Global Positioning System ("GPS") navigation systems comprise high-performance, reliable, cost-effective GPS payload, control and interference location solutions. Our navigation payload technology is an integral component of GPS satellites and supports GPS availability, accuracy and integrity. We currently are deploying advanced technologies under the GPS III program to improve the accuracy and reliability of the next generation of GPS satellites.

We also develop small, affordable, high-resolution commercial imaging systems. We design, develop, manufacture and integrate agile and high-performance modular, reconfigurable space payloads that maximize mission performance. We help our customers achieve their space missions more quickly and cost effectively by brokering, designing and integrating multimission satellite hosted payloads. For example, we supplied Aireon, LLC with ADS-B receiver payloads that are part of a satellite-based aircraft tracking system to enhance global ATC. The payloads are hosted on the Iridium NEXT satellite constellation and provide a capability separate from the main mission of the constellation. Using our experience with hosted payloads, we are expanding into agile and resilient small satellite solutions, which we believe are aligned with the U.S. Government's disaggregation and affordability initiatives.

We also provide space antenna systems and precision space structures. We are an experienced space reflector manufacturer and specialize in large, high-accuracy reflectors. From unfurlable and fixed-mesh reflector antennas to solid spot beam antennas, our solutions deliver significantly higher data rates and access greater amounts of bandwidth than standard satellite antenna technologies.

Another example of our solutions for commercial customers is our tool suite to enable customers to extract information from geospatial imagery products, including our Jagwire™ web-based geospatial data management software that quickly discovers data, transforms it into information and delivers it to decision makers, even in low bandwidth environments; and our ENVI® image analysis software that analyzes virtually any geospatial data type.

Revenue, Operating Income and Backlog: Revenue for our Space and Intelligence Systems segment in fiscal 2018, 2017 and 2016 was $1,921 million, $1,902 million and $1,899 million, respectively. Segment operating income in fiscal 2018, 2017 and 2016 was $336 million, $311 million and $288 million, respectively. The percentage of our revenue contributed by this segment in fiscal 2018, 2017 and 2016 was 31 percent, 32 percent and 32 percent, respectively. The percentages of this segment's revenue under contracts directly with end customers and under contracts with prime contractors in fiscal 2018 were approximately 72 percent and 28 percent, respectively. In fiscal 2018, this segment had a diverse portfolio of over 200 programs. Some of this segment's more significant programs in fiscal 2018 included SENSOR, GOES-R and GPS and various classified programs. The percentages of this segment's revenue in fiscal 2018 represented by this segment's largest program by revenue and ten largest programs by revenue were approximately 9 percent and 48 percent, respectively. The percentage of this segment's revenue in fiscal 2018 that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 93 percent. For a general description of our U.S. Government contracts and subcontracts, including a discussion of revenue generated thereunder and of cost-reimbursable versus fixed-price contracts, see "Item 1. Business - Principal Customers; Government Contracts" of this Report.

The funded backlog for this segment was approximately $1.1 billion at the end of each of fiscal 2018, 2017 and 2016. Additional information regarding funded backlog is provided under “Item 1. Business - Funded Backlog” of this Report. For a discussion of certain risks affecting this segment, including risks relating to our U.S. Government contracts and subcontracts, see “Item 1. Business - Principal Customers; Government Contracts,” “Item 1A. Risk Factors” and “Item 3. Legal Proceedings” of this Report.

International Business

Revenue from products and services exported from the U.S., including foreign military sales, or manufactured or rendered abroad in fiscal 2018, 2017 and 2016 was $1.3 billion (21 percent of our revenue), $1.3 billion (22 percent of our revenue) and $1.2 billion (20 percent of our revenue), respectively. Most of our international sales were derived from our Communication Systems and Electronic Systems segments. Direct export sales are primarily denominated in U.S. Dollars, whereas sales from foreign subsidiaries are generally denominated in the local currency of the subsidiary. Financial information regarding our domestic and international operations, including long-lived assets, is contained in Note 22: Business Segments in the Notes and is incorporated herein by reference.

The majority of our international marketing activities are conducted through subsidiaries that operate in Europe, Asia, the Middle East, Africa, Australia and Canada. We have also established international marketing organizations and several regional sales offices. For further information regarding our international subsidiaries, see Exhibit 21 of this Report.

Fiscal 2018 international revenue came from a large number of countries, and no single foreign country accounted for more than 5 percent of our total revenue. Some of our exports are paid for by letters of credit, with the balance carried either on an open account or installment note basis. Advance payments, progress payments or other similar payments received prior to or upon shipment often cover most of the related costs incurred. Significant foreign government contracts generally require us to provide performance guarantees. In order to remain competitive in international markets, we also sometimes enter into offset agreements or recourse or vendor financing arrangements to facilitate sales to certain customers.

We utilize indirect sales channels, including dealers, distributors and sales representatives, in the marketing and sale of some lines of products and equipment, both domestically and internationally. These independent representatives may buy for resale or, in some cases, solicit orders from commercial or government customers for direct sales by us. Prices to the ultimate customer in many instances may be recommended or established by the independent representative and may be above or below our list prices. Our dealers and distributors generally receive a discount from our list prices and may mark up those prices in setting the final sales prices paid by the customer. Revenue from indirect sales channels represented approximately 10 percent, 11 percent and 15 percent of total revenue and 47 percent, 38 percent and 62 percent of international revenue in fiscal 2018, 2017 and 2016, respectively.

The particular economic, social and political conditions for business conducted outside the U.S. differ from those encountered by businesses in the U.S. We believe that the overall business risk for our international business as a whole is somewhat greater than that faced by our domestic businesses as a whole. A description of the types of risks to which we are subject in our international business is contained in “Item 1A. Risk Factors” of this Report. In our opinion, these risks are partially mitigated by the diversification of our international business and the protection provided by letters of credit and advance payments, progress payments and other similar payments.

Competition

We operate in highly competitive markets that are sensitive to technological advances. Many of our competitors in each of our markets are larger than we are and can maintain higher levels of expenditures for research and development. In each of our markets, we concentrate on the opportunities that we believe are compatible with our resources, overall technological capabilities and objectives. Principal competitive factors in these markets are product quality and reliability; technological capabilities, including reliable, resilient and innovative cyber capabilities; service; past performance; ability to develop and implement complex, integrated solutions; ability to meet delivery schedules; the effectiveness of third-party sales channels in international markets; and cost-effectiveness. We frequently “partner” or are involved in subcontracting and teaming relationships with companies that are, from time to time, competitors on other programs. Our principal competitors include BAE Systems, Boeing, General Dynamics, L-3 Technologies, Lockheed Martin, Motorola Solutions, Northrop Grumman, Raytheon and Rockwell Collins.

Principal Customers; Government Contracts

The percentage of our revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, in fiscal 2018, 2017 and 2016 was approximately 75 percent, 74 percent and 77 percent, respectively. No other customer accounted for more than 5 percent of our revenue in fiscal 2018. Additional information regarding customers for each of our segments is provided under “Item 1. Business — Description of Business by Segment” of this Report. Our U.S. Government sales are predominantly derived from contracts with departments and agencies of, and prime contractors to, the U.S. Government. Most of the sales in our Electronic Systems and Space and Intelligence Systems segments are made directly or indirectly to the U.S. Government under contracts or subcontracts containing standard government contract clauses providing for redetermination of profits, if applicable, and for termination for the convenience of the U.S. Government or for default based on performance.

Our U.S. Government contracts and subcontracts include both cost-reimbursable and fixed-price contracts. Government-wide Acquisition Contracts ("GWACs") and multi-vendor IDIQ contracts, which can include task orders for each contract type, require us to compete both for the initial contract and then for individual task or delivery orders under such contracts.

Our U.S. Government cost-reimbursable contracts provide for the reimbursement of allowable costs plus payment of a fee and fall into three basic types: (i) cost-plus fixed-fee contracts, which provide for payment of a fixed fee irrespective of the final cost of performance; (ii) cost-plus incentive-fee contracts, which provide for payment of a fee that may increase or decrease, within specified limits, based on actual results compared with contractual targets relating to factors such as cost, performance and delivery schedule; and (iii) cost-plus award-fee contracts, which provide for payment of an award fee determined at the customer's discretion based on our performance against pre-established performance criteria. Under our U.S. Government cost-reimbursable contracts, we are reimbursed periodically for allowable costs and are paid a portion of the fee based on contract progress. Some overhead costs have been made partially or wholly unallowable for reimbursement by statute or regulation. Examples include certain merger and acquisition costs, lobbying costs, charitable contributions, interest expense and certain litigation defense costs.

Our U.S. Government fixed-price contracts are either firm fixed-price contracts or fixed-price incentive contracts. Under our U.S. Government firm fixed-price contracts, we agree to perform a specific scope of work for a fixed price and, as a result, benefit from cost savings and carry the burden of cost overruns. Under our U.S. Government fixed-price incentive contracts, we share with the U.S. Government both savings accrued for performance at less than target cost as well as costs incurred in excess of target cost up to a negotiated ceiling price, which is higher than the target cost, but carry the entire burden of costs exceeding the negotiated ceiling price. Accordingly, under such incentive contracts, profit may also be adjusted up or down depending on whether specified performance objectives are met. Under our U.S. Government firm fixed-price and fixed-price incentive contracts, we generally receive from the U.S. Government either milestone payments totaling 100 percent of the contract price or monthly progress payments in amounts equaling 80 percent of costs incurred under the contract. The remaining amounts, including profits or incentive fees, are billed upon delivery and final acceptance of end items and deliverables under the contract. Our production contracts are mainly fixed-price contracts, and development contracts are generally cost-reimbursable contracts.

As stated above, U.S. Government contracts are terminable for the convenience of the U.S. Government, as well as for default based on performance. Companies supplying goods and services to the U.S. Government are dependent on Congressional appropriations and administrative allotment of funds and may be affected by changes in U.S. Government policies resulting from various military, political, economic and international developments. Long-term U.S. Government contracts and related orders are subject to cancellation if appropriations for subsequent performance periods become unavailable. Under contracts terminable for the convenience of the U.S. Government, a contractor is entitled to receive payments for its allowable costs and, in general, the proportionate share of fees or earnings for the work done. Contracts that are terminable for default generally provide that the U.S. Government pays only for the work it has accepted and may require the contractor to pay for the incremental cost of re-procurement and may hold the contractor liable for damages. In many cases, there is also uncertainty relating to the complexity of designs, necessity for design improvements and difficulty in forecasting costs and schedules when bidding on developmental and highly sophisticated technical work. Under many U.S. Government contracts, we are required to maintain facility and personnel security clearances complying with DoD and other Federal agency requirements. For further discussion of risks relating to U.S. Government contracts, see "Item 1A. Risk Factors" and "Item 3. Legal Proceedings" of this Report.

Funded Backlog

Total Company-wide funded backlog was approximately $5.2 billion, $4.1 billion and $4.0 billion at the end of fiscal 2018, 2017 and 2016, respectively. The determination of backlog involves substantial estimating, particularly with respect to customer requirements contracts and development and production contracts of a cost-reimbursable or incentive nature. The level of order activity related to U.S. Government programs can be affected by timing of U.S. Government funding authorizations and project evaluation cycles. Year-over-year comparisons could, at times, be impacted by these factors, among others.

We define funded backlog as unfilled firm orders for products and services for which funding has been authorized and, in the case of U.S. Government customers, appropriated. In fiscal 2019, we expect to convert to revenue approximately 56 percent of our total funded backlog as of the end of fiscal 2018. However, we can give no assurance of such fulfillment or that our funded backlog will become revenue in any particular period, if at all. Backlog is subject to delivery delays and program cancellations, which are beyond our control.

Research and Development

Company-sponsored research and development ("R&D") costs, which include R&D for commercial products and services and independent R&D related to government products and services, as well as concept formulation studies and technology development that occurs on certain bid and proposal efforts, in fiscal 2018, 2017 and 2016 were approximately $311 million, $310 million and $305 million, respectively. A portion of our independent R&D costs are allocated among contracts and programs in process under U.S. Government contractual arrangements. Company-sponsored R&D costs not otherwise allocable are charged to expense when incurred. Company-sponsored research is directed to the development of new products and services and to building technological capability in various markets. Customer-sponsored R&D costs are incurred pursuant to contractual arrangements, principally U.S. Government-sponsored contracts requiring us to provide a product or service meeting certain defined performance or other specifications (such as designs). This research helps strengthen and broaden our technical capabilities. Customer-sponsored research costs are accounted for principally by the cost-to-cost percentage-of-completion method and included in our revenue and cost of product sales and services.

Patents and Other Intellectual Property

We consider our patents and other intellectual property, in the aggregate, to constitute an important asset. We own a large portfolio of patents, trade secrets, know-how, confidential information, trademarks, copyrights and other intellectual property, including reliable, resilient and innovative cyber capabilities, and we routinely apply for new patents, trademarks and copyrights. We also license intellectual property to and from third parties. As of June 29, 2018, we held approximately 1,750 U.S. patents and 1,370 foreign patents, and had approximately 150 U.S. patent applications pending and 210 foreign patent applications pending. Unpatented research, development and engineering skills also make an important contribution to our business. Although our intellectual property rights in the aggregate are important to our business and the operations of our business segments, we do not consider our business or any business segment to be materially dependent on any single patent, license or other intellectual property right, or any group of related patents, licenses or other intellectual property rights. We are engaged in a proactive patent licensing program and have entered into a number of licenses and cross-license agreements, some of which generate royalty income. Although existing license agreements have generated income in past years and may do so in the future, there can be no assurances we will enter into additional income-producing license agreements. From time to time we engage in litigation to protect our patents and other intellectual property. Any of our patents, trade secrets, trademarks, copyrights and other proprietary rights could be challenged, invalidated or circumvented, or may not provide competitive advantages. For further discussion of risks relating to intellectual property, see “Item 1A. Risk Factors” of this Report. With regard to certain patents, the U.S. Government has an irrevocable, non-exclusive, royalty-free license, pursuant to which the U.S. Government may use or authorize others to use the inventions covered by such patents. Pursuant to similar arrangements, the U.S. Government may consent to our use of inventions covered by patents owned by other persons. Numerous trademarks used on or in connection with our products are also considered to be a valuable asset.

Environmental and Other Regulations

Our facilities and operations are subject to numerous domestic and international laws and regulations designed to protect the environment, particularly with regard to waste and emissions. The applicable environmental laws and regulations are common within the industries and markets in which we operate and serve. We believe that we have complied with these requirements and that such compliance has not had a material adverse effect on our financial condition, results of operations or cash flows. We have installed waste treatment facilities and pollution control equipment to satisfy legal requirements and to achieve our waste minimization and prevention goals. A portion of our environmental expenditures relates to businesses or operations we no longer own, but for which we have retained certain environmental liabilities. We did not spend material amounts on environmental-related capital projects in fiscal 2018, 2017 or 2016. Based on currently available information, we do not expect capital expenditures in fiscal 2019 or over the next several years to protect the environment and to comply with current environmental laws and regulations, as well as to comply with current and pending climate control legislation, regulation, treaties and accords, to be material or to have a material impact on our competitive position or financial condition, but we can give no assurance that such expenditures will not exceed current expectations, and such expenditures may increase in future years. If future treaties, laws and regulations contain more stringent requirements than presently anticipated, actual expenditures may be higher than our present estimates of those expenditures.

Additional information regarding environmental and regulatory matters is set forth in “Item 3. Legal Proceedings” of this Report and in Note 1: Significant Accounting Policies and Note 23: Legal Proceedings and Contingencies in the Notes.

Electronic products are subject to governmental environmental regulation in a number of jurisdictions, such as domestic and international requirements requiring end-of-life management and/or restricting materials in products delivered to customers, including the European Union's Directive 2012/19/EU on Waste Electrical and Electronic Equipment and Directive 2011/65/EU on the Restriction of the use of certain Hazardous Substances in Electrical and Electronic Equipment ("RoHS"), as amended. Other jurisdictions have adopted similar legislation. Such requirements typically are not applicable to most equipment produced by our segments. We believe that we have complied with such rules and regulations, where applicable, with respect to our existing products sold into such jurisdictions. We intend to comply with such rules and regulations with respect to our future products.

Wireless communications, whether radio, satellite or telecommunications, are also subject to governmental regulation. Equipment produced in our Communication Systems segment, in particular, is subject to domestic and international requirements to avoid interference among users of radio and television frequencies and to permit interconnection of telecommunications equipment. We are also required to comply with technical operating and licensing requirements that pertain to our wireless licenses and operations. We believe that we have complied with such rules and regulations and licenses with respect to our existing products and services, and we intend to comply with such rules and regulations and licenses with respect to our future products and services. Governmental reallocation of the frequency spectrum also could impact our business, financial condition and results of operations.

Raw Materials and Supplies

Because of the diversity of our products and services, as well as the wide geographic dispersion of our facilities, we use numerous sources for the wide array of raw materials, such as electronic components, printed circuit boards, metals and plastics, needed for our operations and for our products. We are dependent on suppliers and subcontractors for a large number of components and subsystems and the ability of our suppliers and subcontractors to adhere to customer or regulatory materials restrictions and to meet performance and quality specifications and delivery schedules. In some instances, we are dependent on one or a few sources, either because of the specialized nature of a particular item or because of local content preference requirements pursuant to which we operate on a given project. Although we have been affected by financial and performance issues of some of our suppliers and subcontractors, we have not been materially adversely affected by the inability to obtain raw materials or products. On occasion, we have experienced component shortages from vendors as a result of natural disasters, or the RoHS environmental regulations in the European Union or similar regulations in other jurisdictions. These events or regulations may cause a spike in demand for certain electronic components, such as lead-free components, resulting in industry-wide supply chain shortages. As of June 29, 2018, these component shortages have not had a material adverse effect on our business. For further discussion of risks relating to subcontractors and suppliers, see “Item 1A. Risk Factors” of this Report.

Seasonality

We do not consider any material portion of our business to be seasonal. Various factors can affect the distribution of our revenue between accounting periods, including the timing of contract awards and the timing and availability of U.S. Government funding, as well as the timing of product deliveries and customer acceptance.

Employees

We had approximately 17,500 employees at the end of fiscal 2018. Approximately 95 percent of our employees as of the end of fiscal 2018 were located in the U.S. A significant number of our employees possess a U.S. Government security clearance. We also utilize a number of independent contractors. Approximately 600 of our U.S. employees are working under collective bargaining agreements with labor unions and worker representatives. These collective bargaining agreements will be renegotiated at various times over the next three years as they expire. We have historically renegotiated these agreements without significant disruption to operating activities. For certain international subsidiaries, our employees are represented by workers’ councils or statutory labor unions. In general, we believe that our relations with our employees are good.

Website Access to Harris Reports; Available Information

General. We maintain an Internet website at https://www.harris.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, filed or furnished pursuant to Section
13(a) or 15(d) of the Exchange Act, are available free of charge on our website as soon as reasonably practicable after these reports are electronically filed with or furnished to the U.S. Securities and Exchange Commission (“SEC”). We also will provide the reports in electronic or paper form free of charge upon request to our Secretary at Harris Corporation, 1025 West NASA Boulevard, Melbourne, Florida 32919. We also make available free of charge on our website our annual report to shareholders and proxy statement. Our website and the information posted thereon are not incorporated into this Report or any current or other periodic report that we file with or furnish to the SEC. All reports we file with or furnish to the SEC also are available free of charge via the SEC’s electronic data gathering and retrieval, or EDGAR, system available through the SEC’s website at https://www.sec.gov.

Additional information relating to our business, including our business segments, is set forth in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Report.

Corporate Governance Guidelines and Committee Charters. We previously adopted Corporate Governance Guidelines, which are available on the Corporate Governance section of our website at https://www.harris.com/about/corporate-governance. In addition, the charters of each of the standing committees of our Board, namely, the Audit Committee, Finance Committee, Governance and Corporate Responsibility Committee and Management Development and Compensation Committee, are also available on the Corporate Governance section of our website. A copy of the charters is also available free of charge upon written request to our Secretary at Harris Corporation, 1025 West NASA Boulevard, Melbourne, Florida 32919.

Certifications. We have filed with the SEC the certifications required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to this Report. In addition, an annual CEO certification was submitted by our Chief Executive Officer to the NYSE in November 2017 in accordance with the NYSE's listing standards, which included a certification that he was not aware of any violation by Harris of the NYSE's corporate governance listing standards.

ITEM 1A. RISK FACTORS.

We have described many of the trends and other factors that we believe could impact our business and future results in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Report. In addition, our business, financial condition, results of operations and cash flows are subject to, and could be materially adversely affected by, various risks and uncertainties, including, without limitation, those set forth below, any one of which could cause our actual results to vary materially from recent results or our anticipated future results.

We depend on U.S. Government customers for a significant portion of our revenue, and the loss of these relationships, a reduction in U.S. Government funding or a change in U.S. Government spending priorities could have an adverse impact on our business, financial condition, results of operations and cash flows.

We are highly dependent on sales to U.S. Government customers. The percentage of our revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, in fiscal 2018, 2017 and 2016 was approximately 75 percent, 74 percent and 77 percent, respectively. Therefore, any significant disruption or deterioration of our relationship with the U.S. Government would significantly reduce our revenue.

Our competitors continuously engage in efforts to expand their business relationships with the U.S. Government and will continue these efforts in the future, and the U.S. Government may choose to use other contractors. We expect that a majority of the business that we seek will be awarded through competitive bidding. The U.S. Government has increasingly relied on certain types of contracts that are subject to multiple competitive bidding processes, including multi-vendor IDIQ, GWAC, General Services Administration Schedule and other multi-award contracts, which has resulted in greater competition and increased pricing pressure. We operate in highly competitive markets. Many of our competitors have greater financial resources than we do and may have more extensive or more specialized engineering, manufacturing and marketing capabilities than we do in some areas. We may not be able to continue to win competitively awarded contracts or to obtain task orders under multi-award contracts. Further, the competitive bidding process involves significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us or may be split among competitors, as well as the risk that we may fail to accurately estimate the resources and costs required to fulfill any contract awarded to us. The current competitive environment has resulted in unsuccessful bidders more frequently initiating bid protests. Following any contract award, we may experience significant expense or delay, contract modification or contract rescission as a result of our competitors protesting or challenging contracts awarded to us in competitive bidding.

Our U.S. Government programs must compete with programs managed by other government contractors and with other policy imperatives for consideration for limited resources and for uncertain levels of funding during the budget and appropriations process. Budget and appropriations decisions made by the U.S. Government are outside of our control and have long-term consequences for our business. U.S. Government spending priorities and levels remain uncertain and difficult to predict and are affected by numerous factors, including sequestration (automatic, across-the-board U.S. Government budgetary spending cuts) and potential alternative funding arrangements. A change in U.S. Government spending priorities or an increase in non-procurement spending at the expense of our programs, or a reduction in total U.S. Government spending, could have material adverse consequences on our current or future business. Any inability of the U.S. Government to complete its budget process for any government fiscal year and consequently having to operate on funding levels equivalent to its prior fiscal year pursuant to a "continuing resolution" or shut down, also could have material adverse consequences on our current or future business. For more information regarding sequestration, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations — Business Considerations — Industry-Wide Opportunities, Challenges and Risks" of this Report.

We depend significantly on U.S. Government contracts, which often are only partially funded, subject to immediate termination, and heavily regulated and audited. The termination or failure to fund, or negative audit findings for, one or more of these contracts could have an adverse impact on our business, financial condition, results of operations and cash flows.

Over its lifetime, a U.S. Government program may be implemented by the award of many different individual contracts and subcontracts. The funding of U.S. Government programs is subject to Congressional appropriations. Although multi-year contracts may be authorized and appropriated in connection with major procurements, Congress generally appropriates funds on a government fiscal year basis. Procurement funds are typically made available for obligation over the course of one to three years. Consequently, programs often receive only partial funding initially, and additional funds are obligated only as Congress authorizes further appropriations. The termination of funding for a U.S. Government program would result in a loss of anticipated future revenue attributable to that program, which could have an adverse impact on our operations. In addition, the termination of a program or the failure to commit additional funds to a program that already has been started could result in lost revenue and increase our overall costs of doing business.

Generally, U.S. Government contracts are subject to oversight audits by U.S. Government representatives. Such audits could result in adjustments to our contract costs. Any costs found to be improperly allocated to a specific contract will not be reimbursed, and such costs already reimbursed must be refunded. We have recorded contract revenue based on costs we expect to realize upon final audit. However, we do not know the outcome of any future audits and adjustments, and we may be required to materially reduce our revenue or profits upon completion and final negotiation of audits. Negative audit findings could also result in termination of a contract, forfeiture of profits, suspension of payments, fines and suspension or debarment from U.S. Government contracting or subcontracting for a period of time.

In addition, U.S. Government contracts generally contain provisions permitting termination, in whole or in part, without prior notice at the U.S. Government's convenience upon payment only for work done and commitments made at the time of termination. We can give no assurance that one or more of our U.S. Government contracts will not be terminated under these circumstances. Also, we can give no assurance that we would be able to procure new contracts to offset the revenue or backlog lost as a result of any termination of our U.S. Government contracts. Because a significant portion of our revenue is dependent on our performance and payment under our U.S. Government contracts, the loss of one or more large contracts could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Our government business also is subject to specific procurement regulations and a variety of socioeconomic and other requirements. These requirements, although customary in U.S. Government contracts, increase our performance and compliance costs. These costs might increase in the future, thereby reducing our margins, which could have an adverse effect on our business, financial condition, results of operations and cash flows. Failure to comply with these regulations and requirements could lead to fines, penalties, repayments, or compensatory or treble damages, or suspension or debarment from U.S. Government contracting or subcontracting for a period of time. Among the causes for debarment are violations of various laws, including those related to procurement integrity, export control, U.S. Government security regulations, employment practices, protection of the environment, accuracy of records, proper recording of costs and foreign corruption. The termination of a U.S. Government contract or relationship as a result of any of these acts would have an adverse impact on our operations and could have an adverse effect on our standing and eligibility for future U.S. Government contracts.

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

We face the risk, as does any company, of a security breach, whether through cyber attack, cyber intrusion or insider threat via the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or with access to systems inside our organization, or other significant disruption of our IT networks and related systems or those of our suppliers or subcontractors. We face an added risk of a security breach or other significant disruption of the IT networks and related systems that we develop, install, operate and maintain for certain of our customers, which may involve managing and protecting information relating to national security and other sensitive government functions or personally identifiable or protected health information. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, is persistent and substantial as the volume, intensity and sophistication of attempted attacks, intrusions and threats from around the world remain elevated and unlikely to diminish. As an advanced technology-based solutions provider, and particularly as a government contractor, we face a heightened risk of a security breach or disruption from threats to gain unauthorized access to our and our customers' proprietary or classified information on our IT networks and related systems and to the IT networks and related systems that we operate and maintain for certain of our customers. These types of information and IT networks and related systems are critical to the operation of our business and essential to our ability to perform day-to-day operations, and, in some cases, are critical to the operations of certain of our customers. We make significant efforts to maintain the security and integrity of these types of information and IT networks and related systems and have implemented various measures to manage the risk of a security breach or disruption. Our efforts and measures have not been entirely effective in the case of every cyber security incident, but no incident has had a material negative impact on us to date. Even the most well protected information, networks, systems and facilities remain potentially vulnerable because attempted security breaches, particularly cyber attacks and cyber intrusions, or disruptions will occur in the future, and because the techniques used in such attempts are constantly evolving and generally are not recognized until launched against a target, and in some cases are designed not to be detected and, in fact, may not be detected. In some cases, the resources of foreign governments may be behind such attacks due to the nature of our business and the industries in which we operate. Accordingly, we may be unable to anticipate these techniques or to implement adequate security barriers or other preventative measures. Thus, it is impossible for us to entirely mitigate this risk, and there can be no assurance that future cyber security incidents will not have a material negative impact on us. A security breach or other significant disruption involving these types of information and IT networks and related systems could:

- Disrupt the proper functioning of these networks and systems and, therefore, our operations and/or those of certain of our customers;
- Result in the unauthorized access to, and destruction, loss, theft, misappropriation or release of, proprietary, confidential, sensitive or otherwise valuable information of ours, our customers or our employees, including trade secrets, which could be used to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- Compromise national security and other sensitive government functions;
- Require significant management attention and resources to remedy the damages that result;
- Subject us to claims for contract breach, damages, credits, penalties or termination; and
- Damage our reputation with our customers (particularly agencies of the U.S. Government) and the general public.

Any or all of the foregoing could have a negative impact on our business, financial condition, results of operations and cash flows.

The U.S. Government's budget deficit, the national debt and sequestration, as well as any inability of the U.S. Government to complete its budget process for any government fiscal year and consequently having to operate on funding levels equivalent to its prior fiscal year pursuant to a "continuing resolution" or shut down, could have an adverse impact on our business, financial condition, results of operations and cash flows.

The U.S. Government's budget deficit, the national debt and sequestration could have an adverse impact on our business, financial condition, results of operations and cash flows in a number of ways, including the following:

- The U.S. Government could reduce or delay its spending on, or reprioritize its spending away from, the government programs in which we participate;
- The U.S. Government may be unable to complete its budget process for an upcoming government fiscal year prior to the year's October 1 commencement and consequently would be required either to shut down or be funded pursuant to a "continuing resolution" that authorizes agencies of the U.S. Government to continue operations but does not authorize new spending initiatives, either of which could result in reduced or delayed orders or payments for products and services we provide, which may decrease our revenue, profitability or cash flows or otherwise have a material adverse effect on our business, financial condition and results of operations;
- U.S. Government spending could be impacted by sequestration or alternate arrangements, which increases the uncertainty as to, and the difficulty in predicting, U.S. Government spending priorities and levels; and
- We may experience declines in revenue, profitability and cash flows as a result of reduced or delayed orders or payments or other factors caused by economic difficulties of our customers and prospective customers, including U.S. Federal, state and local governments.

The level of returns on defined benefit plan assets, changes in interest rates and other factors could affect our financial condition, results of operations and cash flows in future periods.

A substantial portion of our current and retired employee population is covered by defined benefit pension and other postretirement defined benefit plans (collectively, "defined benefit plans"), as a result of our acquisition of Exelis in fiscal 2015. We may experience significant fluctuations in costs related to defined benefit plans as a result of macro-economic factors, such as interest rates, that are beyond our control. The cost of our defined benefit plans is incurred over long periods of time and involves various factors and uncertainties during those periods that can be volatile and unpredictable, including the rates of return on defined benefit plan assets, discount rates used to calculate liabilities and expenses, mortality of plan participants and trends for future medical costs. We develop our assumptions using relevant plan experience and expectations in conjunction with market-related data. Our financial condition and results of operations could be materially affected by significant changes in key economic indicators, financial market volatility, future legislation and other governmental regulatory actions.

We will make contributions to fund our defined benefit plans when considered necessary or advantageous to do so. The macro-economic factors discussed above, including the rates of return on defined benefit plan assets and the minimum funding requirements established by government funding or taxing authorities, or established by other agreement, may influence future funding requirements. A significant decline in the fair value of our plan assets, or other adverse changes to our overall defined benefit plans, could require us to make significant funding contributions and affect cash flows in future periods.

U.S. Government Cost Accounting Standards ("CAS") govern the extent to which postretirement costs and plan contributions are allocable to and recoverable under contracts with the U.S. Government. As a result, we expect to continue to seek reimbursement from the U.S. Government for a portion of our postretirement costs and plan contributions.

On December 27, 2011, the U.S. Government's Cost Accounting Standards Board published a final rule that harmonizes CAS pension cost reimbursement rules with the Pension Protection Act of 2006 ("PPA") funding requirements. The rule is expected to eventually mitigate the mismatch between CAS costs and PPA-amended Employee Retirement Income Security Act of 1974 ("ERISA") minimum funding requirements and result in an acceleration of allowable CAS pension costs as compared to the prior rules. The final rule applied to Exelis' contracts starting in 2013, including a five-year phase in. The full phase-in was achieved in 2017. We anticipate that government contractors will be entitled to an equitable adjustment for any additional CAS contract costs resulting from the final rule, although we can give no assurances in this regard.

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 have a number of fixed-price contracts, which allow us to benefit from cost savings, but subject us to the risk of potential cost overruns, particularly for firm fixed-price contracts because we assume all of the cost burden. If our initial estimates are incorrect, we can lose money on these contracts. U.S. Government contracts can expose us to potentially large losses because the U.S. Government can hold us responsible for completing a project or, in certain circumstances, paying the entire cost of its replacement by another provider regardless of the size or foreseeability of any cost overruns that occur over the life of the contract. Because many of these contracts involve new technologies and applications and can last for years, unforeseen events, such as technological difficulties, fluctuations in the price of raw materials, a significant increase in inflation in the U.S. or other countries, problems with our suppliers and cost overruns, can result in the contractual price becoming less favorable or even unprofitable to us over time. Furthermore, if we do not meet contract deadlines or specifications, we may need to renegotiate contracts on less favorable terms, be forced to pay penalties or liquidated damages or suffer major losses if the customer exercises its right to terminate. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Our results of operations are dependent on our ability to maximize our earnings from our contracts. Cost overruns could have an adverse impact on our financial results. The potential impact of such risk on our financial results would increase if the mix of our contracts and programs shifted toward a greater percentage of fixed-price contracts, particularly firm fixed-price contracts.

We use estimates in accounting for many of our programs, and changes in our estimates could adversely affect our future financial results.

Accounting for our contracts requires judgment relative to assessing risks, including risks associated with customer directed delays and reductions in scheduled deliveries, unfavorable resolutions of claims and contractual matters, judgments associated with estimating contract revenue and costs, and assumptions for schedule and technical issues. Due to the size and nature of many of our contracts, the estimation of total revenue and cost at completion is complicated and subject to many variables. For example, we must make assumptions regarding: (i) the length of time to complete the contract because costs also include expected increases in wages and prices for materials; (ii) whether the intent of entering into multiple contracts was effectively to enter into a single project in order to determine whether such contracts should be combined or segmented; (iii) incentives or penalties related to performance on contracts in estimating revenue and profit rates, and record them when there is sufficient information for us to assess anticipated performance; and (iv) estimates of award fees in estimating revenue and profit rates based on actual and anticipated awards. Because of the significance of the judgments and estimation processes involved in accounting for our contracts, materially different amounts could be recorded if we used different assumptions or if the underlying circumstances were to change. Changes in underlying assumptions, circumstances or estimates may adversely affect our future results of operations and financial condition.

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.

We are dependent on sales to customers outside the U.S. The percentage of our total revenue represented by revenue from products and services exported from the U.S., including foreign military sales, or manufactured or rendered abroad in fiscal 2018, 2017 and 2016 was 21 percent, 22 percent and 20 percent, respectively. Approximately 24 percent of our international business in fiscal 2018 was transacted in local currency. Losses resulting from currency rate fluctuations can adversely affect our results. We expect that international revenue will continue to account for a significant portion of our total revenue. Also, a significant portion of our international revenue is from, and a significant portion of our business activity is being conducted with or in, less-developed countries and sometimes countries with unstable governments, or in areas of military conflict or at military installations. Other risks of doing business internationally include:

- Currency exchange controls, fluctuations of currency and currency revaluations;

- The laws, regulations and policies of foreign governments relating to investments and operations, as well as U.S. laws affecting the activities of U.S. companies abroad, including the Foreign Corrupt Practices Act (“FCPA”);
- Import and export licensing requirements and regulations, as well as unforeseen changes in export controls and other trade regulations;
- Changes in regulatory requirements, including business or operating license requirements, imposition of tariffs or embargoes;
- Uncertainties and restrictions concerning the availability of funding, credit or guarantees;
- Risk of non-payment or delayed payment by foreign governments;

- Contractual obligations to non-U.S. customers may include specific in-country purchases, investments, manufacturing agreements or financial or other support arrangements or obligations, known as offset obligations, that may extend over several years, may require teaming with local companies and may result in significant penalties if not satisfied;
- The complexity and necessity of using, and disruptions involving our, international dealers, distributors, sales representatives and consultants;
- The difficulties of managing a geographically dispersed organization and culturally diverse workforces, including compliance with local laws and practices;
- Difficulties associated with repatriating cash generated or held abroad in a tax-efficient manner and changes in tax laws;
- Uncertainties as to local laws and enforcement of contract and intellectual property rights and occasional requirements for onerous contract terms;
- Rapid changes in government, economic and political policies, political or civil unrest, acts of terrorism or the threat of international boycotts or U.S. anti-boycott legislation; and
- Increased risk of an incident resulting in damage or destruction to our facilities or products or resulting in injury or loss of life to our employees, subcontractors or other third parties.

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

We have implemented compliance controls, policies and procedures designed to prevent reckless or criminal acts from being committed by our employees, agents or business partners that would violate the laws of the jurisdictions in which we operate, including laws governing payments to government officials, such as the FCPA, and to detect any such reckless or criminal acts committed. We cannot ensure, however, that our controls, policies and procedures will prevent or detect all such reckless or criminal acts, and we have been adversely impacted by such acts in the past. If not prevented, such reckless or criminal acts could subject us to civil or criminal investigations, monetary and non-monetary penalties and suspension and debarment by the U.S. Government and could have a material adverse effect on our ability to conduct business, our results of operations and our reputation. In addition, misconduct involving data security lapses resulting in the compromise of personal information or the improper use of our customer's sensitive or classified information could result in remediation costs, regulatory sanctions against us and serious harm to our reputation and could adversely impact our ability to continue to contract with the U.S. Government.

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.

We must first obtain export and other licenses and authorizations from various U.S. Government agencies before we are permitted to sell certain products and technologies outside of the U.S. For example, the U.S. Department of State must notify Congress at least 15 to 60 days, depending on the size and location of the proposed sale, prior to authorizing certain sales of defense equipment and services to foreign governments. During that time, Congress may take action to block the proposed sale. We can give no assurance that we will continue to be successful in obtaining the necessary licenses or authorizations or that Congress will not prevent or delay certain sales. Any significant impairment of our ability to sell products or technologies outside of the U.S. could negatively impact our business, financial condition, results of operations and cash flows.

Our future success will depend on our ability to develop new products, systems, services and technologies that achieve market acceptance in our current and future markets.

Our businesses are characterized by rapidly changing technologies and evolving industry standards. Accordingly, our performance depends on a number of factors, including our ability to:

- Identify emerging technological trends in our current and target markets;
- Develop and maintain competitive products, systems, services and technologies;
- Enhance our offerings by adding innovative hardware, software or other features that differentiate our products, systems, services and technologies from those of our competitors; and
- Develop, manufacture and bring to market cost-effective offerings quickly.

We believe that, in order to remain competitive in the future, we will need to continue to develop new products, systems, services and technologies, which will require the investment of significant financial resources. The need to make these expenditures could divert our attention and resources from other projects, and we cannot be sure that these expenditures ultimately will lead to the timely development of new products, systems, services or technologies. Due to the design complexity of some of our products, systems, services and technologies, we may experience delays in completing development and introducing new products, systems, services or technologies in the future. Any delays could result in increased costs of development or redirect resources from other projects. In addition, we cannot provide assurances that the markets for our products, systems, services or technologies will develop as we currently anticipate. The failure of our products, systems, services or technologies to gain market acceptance could significantly reduce our revenue and harm our business. Furthermore, we cannot be sure that our competitors will not develop competing products, systems, services or technologies that gain market acceptance in advance of our products, systems, services or technologies, or that our competitors will not develop new products, systems, services or technologies that cause our existing products, systems, services or technologies to become non-competitive or obsolete, which could adversely affect our results of operations. The future direction of the domestic and global economies, including its impact on customer demand, also will have a significant impact on our overall performance.

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 participate in U.S. and international markets that are subject to uncertain economic conditions. In particular, U.S. Government spending priorities and levels remain uncertain and difficult to predict and are affected by numerous factors, including sequestration and potential alternative funding arrangements. In addition, certain of our non-U.S. customers, including in the Middle East and other oil or natural-gas producing countries, could be adversely affected by weakness or volatility in oil or natural gas prices, or negative expectations about future prices or volatility, which could adversely affect demand for our tactical communications, electronic systems or other products, systems or services. As a result, it is difficult to estimate the level of growth in the markets in which we participate. Because all components of our budgeting and forecasting are dependent on estimates of growth in the markets we serve, the uncertainty renders estimates of or guidance relating to future revenue, income and expenditures even more difficult. As a result, we may make significant investments and expenditures but never realize the anticipated benefits.

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.

Ongoing instability and current conflicts in global markets, including in the Middle East and Asia, and the potential for other conflicts and future terrorist activities and other recent geo-political events throughout the world, including new or increased tariffs and potential trade wars and the pending voluntary exit of the United Kingdom from the European Union (commonly referred to as “Brexit”), have created economic and political uncertainties and impacts that could have a material adverse effect on our business, operations and profitability. These matters cause uncertainty in the world’s financial and insurance markets and may significantly increase the political, economic and social instability in the geographic areas in which we operate. These matters may cause us to incur increased costs or experience difficulty with future borrowings under our commercial paper program or credit facilities or in the debt markets, or otherwise with financing our operating, investing (including any future acquisitions) or financing activities. These matters also may cause our insurance coverages and performance bonds to increase in cost, or in some cases, to be unavailable altogether.

Strategic transactions, including acquisitions and divestitures, involve significant risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows.

Strategic acquisitions and divestitures we have made in the past and may make in the future, as well as spin-offs in which Exelis was involved, present significant risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows , which include:

- Difficulty in identifying and evaluating potential acquisitions, including the risk that our due diligence does not identify or fully assess valuation issues, potential liabilities or other acquisition risks;
- Difficulty and expense in integrating newly acquired businesses and operations, including combining product and service offerings, and in entering into new markets in which we are not experienced, in an efficient and cost-effective manner while maintaining adequate standards, controls and procedures, and the risk that we encounter significant unanticipated costs or other problems associated with integration;
- Difficulty and expense in consolidating and rationalizing IT infrastructure, which may include multiple legacy systems from various acquisitions and integrating software code;
- Challenges in achieving strategic objectives, cost savings and other benefits expected from acquisitions;
- Risk that our markets do not evolve as anticipated and that the strategic acquisitions and divestitures do not prove to be those needed to be successful in those markets;
- Risk that we assume or retain, or that companies we have acquired have assumed or retained or otherwise become subject to, significant liabilities that exceed the limitations of any applicable indemnification provisions or the

financial resources of any indemnifying parties;

- Risk that indemnification related to businesses divested or spun off that we may be required to provide or otherwise bear may be significant and could negatively impact our business;
- Risk of exposure to potential liabilities arising out of applicable state and Federal fraudulent conveyance laws and legal distribution requirements from spin-offs in which Exelis was involved, particularly Exelis' spin-off of Vectrus, Inc. ("Vectrus") on September 27, 2014;
- Risk that we may be responsible for U.S. Federal income tax liabilities related to Exelis' spin-off of Vectrus if the transaction were determined to be taxable or if, in certain circumstances, subsequent significant acquisitions

of Exelis or Vectrus stock were deemed to be part of a plan or series of related transactions that include the Vectrus spin-off;

- Risk that we are not able to complete strategic divestitures on satisfactory terms and conditions, including non-competition arrangements applicable to certain of our business lines, or within expected timeframes;
- Potential loss of key employees or customers of the businesses acquired or to be divested; and
- Risk of diverting the attention of senior management from our existing operations.

Disputes with our subcontractors or the inability of our subcontractors to perform, or our key suppliers to timely deliver our components, parts or services, could cause our products, systems or services to be produced or delivered in an untimely or unsatisfactory manner.

We engage subcontractors on many of our contracts. We may have disputes with our subcontractors, including regarding the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontract or subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract, our hiring of the personnel of a subcontractor or vice versa or the subcontractor's failure to comply with applicable law. In addition, there are certain parts, components and services for many of our products, systems and services that we source from other manufacturers or vendors. Some of our suppliers, from time to time, experience financial and operational difficulties, which may impact their ability to supply the materials, components, subsystems and services that we require. Our supply chain could also be disrupted by external events, such as natural disasters or other significant disruptions (including extreme weather conditions, medical epidemics, acts of terrorism, cyber attacks and labor disputes), governmental actions and legislative or regulatory changes, including product certification or stewardship requirements, sourcing restrictions, product authenticity and climate change or greenhouse gas emission standards, or availability constraints from increased demand from customers. Any inability to develop alternative sources of supply on a cost-effective and timely basis could materially impair our ability to manufacture and deliver products, systems and services to our customers. We can give no assurances that we will be free from disputes with our subcontractors; material supply constraints or problems; or component, subsystems or services problems in the future. Also, our subcontractors and other suppliers may not be able to acquire or maintain the quality of the materials, components, subsystems and services they supply, which might result in greater product returns, service problems and warranty claims and could harm our business, financial condition, results of operations and cash flows. In addition, in connection with our government contracts, we are required to procure certain materials, components and parts from supply sources approved by the U.S. Government and we rely on our subcontractors and suppliers to comply with applicable laws, regulations and other requirements regarding procurement of counterfeit, unauthorized or otherwise non-compliant parts or materials, including parts or materials they supply to us, and in some circumstances, we rely on their certifications as to their compliance. From time to time, there are components for which there may be only one supplier, which may be unable to meet our needs. Each of these subcontractor and supplier risks could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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.

Many of the markets we serve are characterized by vigorous protection and pursuit of intellectual property rights, which often has resulted in protracted and expensive litigation. 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 we may be found to be infringing or to have infringed directly or indirectly upon those intellectual property rights. Claims of intellectual property infringement might also require us to enter into costly royalty or license agreements. Moreover, we may not be able to obtain royalty or license agreements on terms acceptable to us, or at all. We also may be subject to significant damages or injunctions against development and sale of certain of our products, services and solutions. Our success depends in large part on our proprietary technology. We rely on a combination of patents, copyrights, trademarks, trade secrets, know-how, confidentiality provisions and licensing arrangements to establish and protect our intellectual property rights. If we fail to successfully protect and enforce these rights, our competitive position could suffer. Our pending patent and trademark registration applications may not be allowed, or competitors may challenge the validity or scope of our patents or trademark registrations. In addition, our patents may not provide us a significant competitive advantage. We may be required to spend significant resources to monitor and enforce our intellectual property rights. We may not be able to detect infringement and our competitive position may be harmed before we do so. In addition, competitors may design around our technology or develop competing technologies.

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 condition, results of operations and cash flows.

From time to time, we are defendants in a number of litigation matters and are involved in a number of arbitrations. These actions may divert financial and management resources that would otherwise be used to benefit our operations. No assurances can be given that the results of these or new matters will be favorable to us. An adverse resolution of lawsuits or arbitrations could have a material adverse effect on our financial condition, results of operations and cash flows.

We face certain significant risk exposures and potential liabilities that may not be covered adequately by insurance or indemnity.

We are exposed to liabilities that are unique to the products and services we provide. A significant portion of our business relates to designing, developing and manufacturing advanced defense, technology and communications systems and products. New technologies associated with these systems and products may be untested or unproven. Components of certain of the defense systems and products we develop are inherently dangerous. Failures of satellites, missile systems, air traffic control systems, electronic warfare systems, space superiority systems, C4ISR systems, homeland security applications and aircraft have the potential to cause loss of life and extensive property damage. Other examples of unforeseen problems that could result, either directly or indirectly, in the loss of life or property or otherwise negatively affect revenue and profitability include loss on launch of spacecraft, premature failure of products that cannot be accessed for repair or replacement, problems with quality and workmanship, country of origin, delivery of subcontractor components or services and unplanned degradation of product performance. In addition, problems and delays in development or delivery as a result of issues with respect to design, technology, licensing and patent rights, labor, learning curve assumptions or materials and components could prevent us from achieving contractual requirements. In many circumstances, we may receive indemnification from the U.S. Government. We generally do not receive indemnification from foreign governments. Although we maintain insurance for certain risks, the amount of our insurance coverage may not be adequate to cover all claims or liabilities, and we may be forced to bear substantial costs from an accident or incident. It also is not possible for us to obtain insurance to protect against all operational risks and liabilities. Substantial claims resulting from an incident in excess of U.S. Government indemnity and our insurance coverage would harm our financial condition, results of operations and cash flows. Other factors that may affect revenue and profits include loss of follow-on work, and, in the case of certain contracts, liquidated damages, penalties and repayment to the customer of contract cost and fee payments we previously received. Moreover, any accident or incident for which we are liable, even if fully insured, could negatively affect our standing with our customers and the public, thereby making it more difficult for us to compete effectively, and could significantly impact the cost and availability of adequate insurance in the future.

Changes in our effective tax rate may have an adverse effect on our results of operations.

Our future effective tax rate may be adversely affected by a number of factors including:

- The jurisdictions in which profits are determined to be earned and taxed;
- Adjustments to estimated taxes upon finalization of various tax returns;
- Increases in expenses not fully deductible for tax purposes, including write-offs of acquired in-process R&D and impairment of goodwill or other long-term assets in connection with acquisitions;
- Changes in available tax credits;
- Changes in share-based compensation expense;
- Changes in the valuation of our deferred tax assets and liabilities;
- Changes in domestic or international tax laws or the interpretation of such tax laws; and
- The resolution of issues arising from tax audits with various tax authorities.

Any significant increase in our future effective tax rates could adversely impact our results of operations for future periods.

Our level of indebtedness and our ability to make payments on or service our indebtedness and our unfunded defined benefit plans liability may adversely affect our financial and operating activities or our ability to incur additional debt.

At the end of fiscal 2018, we had $3.7 billion in aggregate principal amount of outstanding debt and approximately $0.7 billion of unfunded defined benefit plans liability. In the future we may increase our borrowings; however, our ability to do so will be subject to limitations imposed on us by our debt agreements. Our ability to make payments on and to refinance our indebtedness as well as any future debt that we may incur and our ability to make contributions to our unfunded defined benefit plans liability, will depend on our ability to generate cash in the future from operations, financings or asset sales. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. If we are not able to repay or refinance our debt as it becomes due or make contributions to our unfunded defined benefit plans liability, we may be forced to sell assets or take other disadvantageous actions, including reducing financing in the future for working capital, capital expenditures and general corporate purposes; reducing our cash dividend rate and/or share repurchases; or dedicating an unsustainable level of our cash flow from operations to the payment of principal and interest on our indebtedness. In addition, our ability to withstand competitive pressures and to react to changes in the defense technology industry could be impaired. The lenders who hold such debt could also accelerate amounts due, which could potentially trigger a default or acceleration of any of our other debt.

A downgrade in our credit ratings could materially adversely affect our business.

The credit ratings assigned to our debt securities could change based on, among other things, our results of operations, financial condition, mergers, acquisitions or dispositions. These ratings are subject to ongoing evaluation by credit rating agencies, and there can be no assurance that any rating will not be changed or withdrawn by a rating agency in the future.

Moreover, these credit ratings are not recommendations to buy, sell or hold any of our debt securities. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under review for a downgrade or have been assigned a negative outlook, would likely increase our borrowing costs and affect our ability to incur new indebtedness or refinance our existing indebtedness, which in turn could have a material adverse effect on our financial condition, results of operations and cash flows and the market value of our common stock and outstanding debt securities.

Unforeseen environmental issues could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Our operations are subject to and affected by many Federal, state, local and foreign environmental laws and regulations. In addition, we could be affected by future environmental laws or regulations, including, for example, new restrictions on materials used in our operations. Compliance with current and future environmental laws and regulations may require significant operating and capital costs. Environmental laws and regulations may authorize substantial fines and criminal sanctions as well as facility shutdowns to address violations, and may require the installation of costly pollution control equipment or operational changes to limit emissions or discharges. We also incur, and expect to continue to incur, costs to comply with current environmental laws and regulations related to remediation of conditions in the environment. In addition, if violations of environmental laws result in us, or in one or more of our operations, being identified as an excluded party in the U.S. Government's System for Award Management, then we or one or more of our operations would become ineligible to receive certain contracts, subcontracts and other benefits from the Federal government or to perform work under a government contract or subcontract. Generally, such ineligibility would continue until the basis for the listing has been appropriately addressed. Developments such as the adoption of new environmental laws and regulations, stricter enforcement of existing laws and regulations, violations by us of such laws and regulations, discovery of previously unknown or more extensive contamination, litigation involving environmental impacts, our inability to recover costs associated with any such developments under previously priced contracts, or financial insolvency of other responsible parties could have a material adverse effect on our business, financial condition, 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.

Our corporate headquarters and significant business operations are located in Florida, which is subject to the risk of major hurricanes. Our worldwide operations and operations of our suppliers could be subject to natural disasters or other significant disruptions, including hurricanes, typhoons, tsunamis, floods, earthquakes, fires, water shortages, other extreme weather conditions, medical epidemics, acts of terrorism, power shortages and blackouts, telecommunications failures, cyber attacks and other natural and manmade disasters or disruptions. In the event of such a natural disaster or other disruption, we could experience disruptions or interruptions to our operations or the operations of our suppliers, subcontractors, distributors, resellers or customers; destruction of facilities; and/or loss of life, all of which could materially increase our costs and expenses and have a material adverse effect on our business, financial condition, results of operations and cash flows.

Changes in future business or other market conditions could cause business investments and/or recorded goodwill or other long-term assets to become impaired, resulting in substantial losses and write-downs that would adversely affect our results of operations.

From time to time, we acquire a minority or majority interest in a business. These investments are made upon careful analysis and due diligence procedures designed to achieve a desired return or strategic objective. These procedures often involve certain assumptions and judgment in determining acquisition price. After acquisition, such assumptions and judgment may prove to have been inaccurate and unforeseen issues could arise, which could adversely affect the anticipated returns or which are otherwise not recoverable as an adjustment to the purchase price. Even after careful integration efforts, actual operating results may vary significantly from initial estimates. Goodwill accounted for approximately 55 percent of our recorded total assets as of June 29, 2018. We evaluate the recoverability of recorded goodwill annually, as well as when we change reporting units and when events or circumstances indicate there may be an impairment. The impairment test is based on several factors requiring judgment. Principally, a decrease in expected reporting unit cash flows or changes in market conditions may indicate potential impairment of recorded goodwill. Because of the significance of our goodwill and other intangible assets, any future impairment of these assets could have a material adverse effect on our results of operations and financial condition. For additional information on accounting policies we have in place for impairment of goodwill, see our discussion under “Critical Accounting Policies and Estimates” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Report and Note 1: Significant Accounting Policies and Note 8: Goodwill in the Notes.

Some of our workforce is represented by labor unions, so our business could be harmed in the event of a prolonged work stoppage.

Approximately 600 of our U.S. employees are unionized, which represented approximately 3 percent of our employee-base at the end of fiscal 2018. As a result, we may experience work stoppages that could adversely affect our business. We cannot predict how stable our union relationships will be or whether we will be able to successfully negotiate successor collective bargaining agreements without impacting our financial condition. In addition, the presence of unions may limit our flexibility in dealing with our workforce. Work stoppages could negatively impact our ability to manufacture our products on a timely basis, which could negatively impact our business, financial condition, results of operations and cash flows.

We must attract and retain key employees, and any failure to do so could seriously harm us.

Our business has a continuing need to attract and retain significant numbers of skilled personnel, including personnel holding security clearances, to support our growth and to replace individuals whose employment has terminated due to retirement or other reasons. To the extent that the demand for qualified personnel exceeds supply, as has been the case from time to time in recent years, we could experience higher labor, recruiting or training costs in order to attract and retain such employees, or could experience difficulties in performing under our contracts if our needs for such employees were unmet.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

We have no unresolved comments from the SEC.

ITEM 2. PROPERTIES.

Our principal executive offices are located at owned facilities in Melbourne, Florida. As of June 29, 2018, we operated approximately 160 locations in the U.S., Canada, Europe, the Middle East, Asia, Australia and South America, consisting of approximately 10 million square feet of manufacturing, administrative, R&D, warehousing, engineering and office space, of which we owned approximately 7 million square feet and leased approximately 3 million square feet. There are no material encumbrances on any of our owned facilities. Our leased facilities are, for the most part, occupied under leases for remaining terms ranging from one month to 10 years, a majority of which can be terminated or renewed at no longer than 5-year intervals at our option. As of June 29, 2018, we had major operations at the following locations:

Communication Systems — Rochester, New York; Lynchburg and Roanoke, Virginia; Hamilton and Pinkenba, Australia; and Basingstoke, United Kingdom.

Electronic Systems — Palm Bay, Panama City, Malabar and Melbourne, Florida; Clifton, New Jersey; Van Nuys, California; Herndon, Virginia; Salt Lake City, Utah; and Amityville, New York.

Space and Intelligence Systems — Palm Bay and Melbourne, Florida; Rochester, New York; Colorado Springs, Colorado; and Fort Wayne, Indiana.

Corporate — Melbourne, Florida.

The following is a summary of the approximate floor space of our offices and facilities in productive use, by segment, at June 29, 2018:

Segment	Approximate Total Sq. Ft. Owned	Approximate Total Sq. Ft. Leased	Approximate Total Sq. Ft.
	(In millions)		
Communication Systems	1.5	0.4	1.9
Electronic Systems	2.1	1.6	3.7
Space and Intelligence Systems	2.5	0.9	3.4
Corporate	0.4	0.1	0.5
Total	6.5	3.0	9.5

In our opinion, our facilities, whether owned or leased, are suitable and adequate for their intended purposes and have capacities adequate for current and projected needs. We frequently review our anticipated requirements for facilities and will, from time to time, acquire additional facilities, expand existing facilities and dispose of existing facilities or parts thereof, as management deems necessary. For more information about our lease obligations, see Note 17: Lease Commitments in the Notes. Our facilities and other properties are generally maintained in good operating condition.

ITEM 3. LEGAL PROCEEDINGS.

General. From time to time, as a normal incident of the nature and kind of businesses in which we are or 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 June 29, 2018, 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 June 29, 2018 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 or conducted 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 Consolidated Financial Statements. See Note 21: Income Taxes in the Notes for additional information regarding audits and examinations by taxing authorities of our tax filings.

U.S. Government Business. We are engaged in supplying goods and services to various departments and agencies of the U.S. Government. We are therefore dependent on Congressional appropriations and administrative allotment of funds and may be affected by changes in U.S. Government policies. U.S. Government development and production contracts typically involve long lead times for design and development, are subject to significant changes in contract scheduling and may be unilaterally modified or canceled by the U.S. Government. Often these contracts call for successful design and production of complex and technologically advanced products or systems. We may participate in supplying goods and services to the U.S. Government as either a prime contractor or as a subcontractor to a prime contractor. Disputes may arise between the prime contractor and the U.S. Government or between the prime contractor and its subcontractors and may result in litigation or arbitration between the contracting parties.

Generally, U.S. Government contracts are subject to procurement laws and regulations, including the Federal Acquisition Regulation ("FAR"), which outline uniform policies and procedures for acquiring goods and services by the U.S. Government, and specific agency acquisition regulations that implement or supplement the FAR, such as the Defense Federal Acquisition Regulation Supplement. As a U.S. Government contractor, our contract costs are audited and reviewed on a continuing basis by the Defense Contract Audit Agency ("DCAA"). The DCAA also reviews the adequacy of, and a U.S. Government contractor's compliance with, the contractor's business systems and policies, including the contractor's property, estimating, compensation and management information systems. In addition to these routine audits, from time to time, we may, either individually or in conjunction with other U.S. Government contractors, be the subject of audits and investigations by other agencies of the U.S. Government. These audits and investigations are conducted to determine if our performance and administration of our U.S. Government contracts are compliant with applicable contractual requirements and procurement and other applicable Federal laws and regulations. These investigations may be conducted without our knowledge. We are unable to predict the outcome of such investigations or to estimate the amounts of resulting claims or other actions that could be instituted against us or our officers or employees. Under present U.S. Government procurement laws and regulations, if indicted or adjudged in violation of procurement or other Federal laws, a contractor, such as us, or one or more of our operating divisions or subdivisions, could be subject to fines, penalties, repayments, or compensatory or treble damages.

U.S. Government regulations also provide that certain findings against a contractor may lead to suspension or debarment from eligibility for awards of new U.S. Government contracts for a period of time to be determined by the U.S. Government. Suspension or debarment would have a material adverse effect on us because of our reliance on U.S. Government contracts. In addition, our export privileges could be suspended or revoked, which also would have a material adverse effect on us. For further discussion of risks relating to U.S. Government contracts, see "Item 1A. Risk Factors" of this Report.

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, the FCPA and other similar U.S. and international laws.

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 or companies we have acquired are responsible, or alleged to be responsible, for environmental investigation and/or remediation of multiple sites. These sites are in various stages of investigation and/or remediation and in some cases our liability is considered de minimis. Notices from the U.S. Environmental Protection Agency ("EPA") or equivalent state or international environmental agencies allege 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 of being 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, in June 2014, the U.S. Department of Justice ("DOJ"), Environment and Natural Resources Division, notified several potentially responsible parties, including Exelis, of potential responsibility for contribution to the environmental investigation and remediation of multiple locations in Alaska. In addition, in March 2016, the EPA notified over 100 potentially responsible parties, including Exelis, of potential liability for the cost of remediation for the lower 8.3-mile stretch of the Lower Passaic River, estimated by the EPA to be $1.38 billion, but the parties' respective allocations have not been determined. Although it is not feasible to predict the outcome of environmental claims made against us, based on available information, in the opinion of our management, any payments we may be required to make as a result of environmental claims made against us in existence at June 29, 2018 are reserved against, covered by insurance or would not have a material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

EXECUTIVE OFFICERS OF THE REGISTRANT

The name, age, position held with us, and principal occupation and employment during at least the past five years for each of our executive officers as of August 25, 2018, were as follows:

Name and Age	Position Currently Held and Past Business Experience
William M. Brown, 55	Chairman, President and Chief Executive Officer since April 2014. President and Chief Executive Officer from November 2011 to April 2014. Formerly with United Technologies Corporation ("UTC"), as Senior Vice President, Corporate Strategy and Development from April 2011 to October 2011; as President of UTC's Fire & Security division from 2006 to 2011; and in U.S. and international roles at UTC's Carrier Corporation from 2000 to 2006, including President of the Carrier Asia Pacific Operations; and as Director, Corporate Strategy and Business Development from 1997 to 2000. Before joining UTC in 1997, Mr. Brown worked for McKinsey & Company as a senior engagement manager, and prior to that, at Air Products and Chemicals, Inc. as a project engineer. Mr. Brown joined Harris in 2011.
Robert L. Duffy, 51	Senior Vice President, Human Resources and Administration since July 2012. Formerly with UTC, as Vice President, Human Resources for UTC's Sikorsky aircraft operation from 2010 to 2011; and in similar roles within UTC's Fire & Security, Carrier, Hamilton Sundstrand and Pratt & Whitney operations from 1998 to 2009. Before joining UTC in 1998, Mr. Duffy held human resource management positions with Royal Dutch Shell and James River Corporation. Mr. Duffy joined Harris in 2012.
Sheldon J. Fox, 59	Senior Vice President, Operations and Information Technology since August 2017. Senior Vice President, Integration and Engineering from July 2015 to August 2017. Group President, Government Communications Systems from June 2010 to July 2015. President, National Intelligence Programs, Government Communications Systems from December 2007 to May 2010. President, Defense Programs, Government Communications Systems from May 2007 to December 2007. Vice President and General Manager, Department of Defense Programs, Government Communications Systems Division from July 2006 to April 2007. Vice President of Programs, Department of Defense Communications Systems, Government Communications Systems Division from July 2005 to June 2006. Mr. Fox joined Harris in 1984.
William H. Gattle, 57	President, Space and Intelligence Systems since July 2015. Vice President and General Manager, National Intelligence Programs, Government Communications Systems from June 2013 to July 2015. Vice President, Aerospace Systems, Government Communications Systems from June 2012 to June 2013. Vice President, Space Communication Systems, Government Communications Systems from January 2009 to June 2012. Mr. Gattle joined Harris in 1987.
Rahul Ghai, 46	Senior Vice President and Chief Financial Officer since February 2016. Vice President, Finance-Integration from March 2015 to February 2016. Formerly with Aetna Inc., as Vice President, Financial Planning and Integration from August 2013 to February 2015; and Chief Financial Officer for Aetna International from May 2012 to August 2013. Before joining Aetna, Mr. Ghai held positions at UTC from 2000 to 2012, including as Vice President-Financial Planning and Analysis and Treasury for UTC's Hamilton Sundstrand division (January 2012 to May 2012); Vice President-Financial Planning and Analysis and Operations Finance for UTC's Fire & Security division (2009-2011); Chief Financial Officer, Americas, Fire & Security Services (2007-2009); and Director, Global Operations Finance, Fire & Security (2005-2007). Mr. Ghai joined Harris in 2015.
Dana A. Mehnert, 56	Senior Vice President, Chief Global Business Development Officer since July 2015. Group President, RF Communications from May 2009 to July 2015. President, RF Communications from July 2006 to May 2009. Vice President and General Manager — Government Products Business, RF Communications from July 2005 to July 2006. Vice President and General Manager — Business Development and Operations, RF Communications from January 2005 to July 2005. Vice President — Defense Operations, RF Communications from January 2004 to January 2005. Vice President — International Operations, RF Communications from November 2001 to January 2004. Vice President/Managing Director — International Government Sales Operations for Harris' regional sales organization from September 1999 to November 2001. Vice President — Marketing and International Sales, RF Communications from August 1997 to

September 1999. Vice President — Worldwide Marketing, RF Communications from July 1996 to July 1997. Vice President — International Sales, RF Communications from November 1995 to June 1996. Mr. Mehnert joined Harris in 1984.

Name and Age	Position Currently Held and Past Business Experience
Scott T. Mikuen, 56	Senior Vice President, General Counsel and Secretary since February 2013. Vice President, General Counsel and Secretary from October 2010 to February 2013. Vice President, Associate General Counsel and Secretary from October 2004 to October 2010. Vice President — Counsel, Corporate and Commercial Operations and Assistant Secretary from November 2000 to October 2004. Mr. Mikuen joined Harris in 1996 as Finance Counsel.
Todd A. Taylor, 45	Vice President, Principal Accounting Officer since May 2015. Vice President from April 2015 to May 2015. Formerly with Molex, Inc., as Vice President, Chief Accounting Officer and Corporate Controller from September 2012 to April 2015, Director of Finance and Corporate Controller from September 2010 to September 2012 and Director of Accounting from June 2008 to September 2010; with PricewaterhouseCoopers, as Internal Audit Advisory Director from March 2003 to June 2008; and with Wells Fargo, as Internal Controls Manager from September 1999 to February 2003. Mr. Taylor began his career in public accounting with RSM McGladrey in 1996. Mr. Taylor joined Harris in 2015.
Christopher D. Young, 58	President, Communication Systems since July 2015. Previously with Exelis (formerly known as ITT Defense and Information Solutions) as President, Geospatial Systems and Executive Vice President, Exelis from October 2011 to July 2015 and President and General Manager of ITT Space Systems Division from April 2006 to October 2011. Mr. Young first joined ITT Defense and Information Solutions in 1982 where he assumed positions of increasing responsibility.
Edward J. Zoiss, 53	President, Electronic Systems since July 2015. Vice President and General Manager, Defense Programs, Government Communications Systems from June 2013 to July 2015. Vice President, C4ISR Electronics, Government Communications Systems from June 2012 to June 2013; Vice President, Advanced Programs and Technology, Government Communications Systems from July 2010 to June 2012. Mr. Zoiss joined Harris in 1995.

There is no family relationship between any of our executive officers or directors. There are no arrangements or understandings between any of our executive officers or directors and any other person pursuant to which any of them was appointed or elected as an officer or director, other than arrangements or understandings with our directors or officers acting solely in their capacities as such. All of our executive officers are elected annually and serve at the pleasure of our Board of Directors.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Market Information and Price Range of Common Stock

Our common stock, par value $1.00 per share, is listed and traded on the NYSE, under the ticker symbol "HRS." According to the records of our transfer agent, as of August 24, 2018, there were approximately 12,209 holders of record of our common stock. The high and low sales prices of our common stock as reported in the NYSE consolidated transaction reporting system and the cash dividends paid on our common stock for each quarterly period in our last two fiscal years are reported below:

	High	Low	Cash Dividends		High	Low	Cash Dividends
Fiscal 2018				Fiscal 2017			
First Quarter	$132.00	$109.08	$ 0.57	First Quarter	$94.09	$80.78	$ 0.53
Second Quarter	$144.94	$131.52	0.57	Second Quarter	$107.54	$88.89	0.53
Third Quarter	$164.58	$140.84	0.57	Third Quarter	$113.00	$99.13	0.53
Fourth Quarter	$170.54	$142.50	0.57	Fourth Quarter	$114.32	$106.18	0.53
			$ 2.28				$ 2.12

On August 24, 2018, the last sale price of our common stock as reported in the NYSE consolidated transaction reporting system was $163.23 per share.

Dividends

The cash dividends paid on our common stock for each quarterly period in our last two fiscal years are set forth in the tables above. On August 25, 2018, our Board of Directors increased the quarterly cash dividend rate on our common stock from $.57 per share to $.685 per share, for an annualized cash dividend rate of $2.74 per share, which was our seventeenth consecutive annual increase in our quarterly cash dividend rate. Our annualized cash dividend rate in fiscal 2018, 2017 and 2016 was $2.28 per share, $2.12 per share and $2.00 per share, respectively. Quarterly cash dividends are typically paid in March, June, September and December. We currently expect that quarterly 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 quarterly cash 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.

Harris Stock Performance Graph

The following performance graph and table do not constitute soliciting material and the performance graph and table should not be deemed filed or incorporated by reference into any other previous or future filings by us under the Securities Act or the Exchange Act, except to the extent that we specifically incorporate the performance graph and table by reference therein.

The performance graph and table below compare the 5-year cumulative total shareholder return of our common stock with the comparable 5-year cumulative total returns of the Standard & Poor's 500 Composite Stock Index ("S&P 500") and the Standard & Poor's 500 Aerospace & Defense Index ("S&P 500 Aerospace & Defense"). The figures in the performance graph and table below assume an initial investment of $100 at the close of business on June 28, 2013 in Harris common stock, the S&P 500 and the S&P 500 Aerospace & Defense and the reinvestment of all dividends.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN AMONG
HARRIS, S&P 500 AND S&P 500 AEROSPACE & DEFENSE

HARRIS FISCAL YEAR END	2013	2014	2015	2016	2017	2018
Harris	$100	$158	$166	$180	$243	$327
S&P 500	$100	$125	$135	$140	$164	$188
S&P 500 Aerospace & Defense	$100	$131	$142	$159	$205	$257

Sales of Unregistered Securities
During fiscal 2018, we did not issue or sell any unregistered securities.

Issuer Purchases of Equity Securities

During fiscal 2018, we repurchased 1,959,435 shares of our common stock under our current repurchase program for $272 million at an average share price of $138.87, excluding commissions of $.02 per share. During fiscal 2017, we repurchased 6,637,239 shares of our common stock under our current and prior repurchase programs for $710 million, including $600 million pursuant to fixed-dollar accelerated share repurchase ("ASR") agreements (including 296,952 shares of our common stock received in the first quarter of fiscal 2018 pursuant to an ASR agreement). 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 fiscal quarter ended June 29, 2018:

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 (March 31, 2018-April 27, 2018)				
Repurchase program[1]	—	—	—	$776,343,512
Employee transactions[2]	2,273	$ 160.77	—	—
Month No. 2 (April 28, 2018-May 25, 2018)				
Repurchase program[1]	115,000	$ 152.60	115,000	$758,794,323
Employee transactions[2]	21,425	$ 150.02	—	—
Month No. 3 (May 26, 2018-June 29, 2018)				
Repurchase program[1]	377,722	$ 152.25	377,722	$701,284,313
Employee transactions[2]	28,373	$ 151.29	—	—
Total	544,793		492,722	$701,284,313

* Periods represent our fiscal months.

(1) On February 2, 2017, we announced that on January 26, 2017, our Board of Directors approved a share 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. As of June 29, 2018, $701,284,313 (as reflected in the table above) was the approximate dollar amount of our common stock that may yet be purchased under our repurchase program, which does not have a stated expiration date.

(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 units or restricted shares that vested during the quarter and (b) performance units, restricted 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.

The information required by this Item with respect to securities authorized for issuance under our equity compensation plans is included in "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" of this Report. See Note 14: Stock Options and Other Share-Based Compensation in the Notes for a general description of our share-based incentive plans.

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes our selected historical financial information for each of the last five fiscal years. Amounts pertaining to our results of operations are presented on a continuing operations basis. See Note 3: Discontinued Operations and Divestitures in the Notes for information regarding discontinued operations. The selected financial information shown below has been derived from our audited Consolidated Financial Statements, which for data presented for fiscal 2018 and 2017 are included elsewhere in this Report. This table should be read in conjunction with our other financial information, including “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the Consolidated Financial Statements and accompanying Notes, included elsewhere in this Report.

	Fiscal Years Ended				
	2018[(1)]	2017[(2)]	2016[(3)]	2015[(4)]	2014
	(In millions, except per share amounts)				
Results of Operations:					
Revenue from product sales and services	$6,182	$5,900	$5,992	$3,885	$3,622
Cost of product sales and services[(5)]	3,931	3,734	3,832	2,304	2,118
Interest expense	170	172	183	130	94
Income from continuing operations before income taxes	926	905	884	396	642
Income taxes	205	267	273	109	202
Income from continuing operations	721	638	611	287	440
Discontinued operations, net of income taxes	(3)	(85)	(287)	47	94
Net income	718	553	324	334	534
Noncontrolling interests, net of income taxes	—	—	—	—	1
Net income attributable to Harris Corporation	718	553	324	334	535
Average shares outstanding (diluted)	121.1	124.3	125.0	106.8	107.3
Per Share Data (Diluted):					
Income from continuing operations	$5.94	$5.12	$4.87	$2.67	$4.08
Income (loss) from discontinued operations, net of income taxes	(0.02)	(0.68)	(2.28)	0.44	0.87
Net income	5.92	4.44	2.59	3.11	4.95
Cash dividends	2.28	2.12	2.00	1.88	1.68
Financial Position at Fiscal Year-End:					
Net working capital[(6)]	$435	$147	$643	$909	$877
Net property, plant and equipment	900	904	924	1,031	576
Long-term debt, net	3,408	3,396	4,120	5,053	1,564
Total assets	9,839	10,090	12,009	13,127	4,919
Equity	3,322	2,928	3,057	3,402	1,825
Book value per share	28.09	24.48	24.53	27.51	17.30

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(1) Results for fiscal 2018 included: (i) $47 million of charges related to our decision to transition and exit a commercial air-to-ground LTE radio communications line of business and other items; (ii) $27 million of losses and other costs related to debt refinancing; (iii) $14 million of charges related to non-cash adjustments for deferred compensation and the impact of tax reform; and (iv) a $5 million charge related to consolidation of certain Exelis facilities initiated in fiscal 2017. The net after-tax impact from these fiscal 2018 items was $68 million or $.56 per diluted common share.

(2) Results for fiscal 2017 included a $51 million after-tax ($.41 per diluted common share) charge for Exelis acquisition-related and other items.

(3) Results for fiscal 2016 included: (i) $121 million for integration and other costs associated with our acquisition of Exelis in the fourth quarter of fiscal 2015, including $11 million for amortization of a step-up in inventory; (ii) a net liability reduction of $101 million for certain post-employment benefit plans; (iii) $33 million of charges for restructuring and other items; and (iv) a $10 million net gain on the sale of Aerostructures. The net after-tax impact from these fiscal 2016 items was $34 million or $.27 per diluted common share.

(4) Results for fiscal 2015 included results of Exelis following the close of the acquisition on May 29, 2015 and a $205 million after-tax ($1.91 per diluted share) charge for transaction, financing, integration, restructuring and other costs, primarily related to our acquisition of Exelis.

(5) "Cost of products sales and services" from prior years have been adjusted to conform to current-year classifications. Reclassifications include certain human resources, information technology ("IT"), direct selling and bid and proposal costs that were previously included as "Cost of product sales and services" line items and are now reflected in the "Engineering, selling and administrative expenses" line item in our Consolidated Statement of Income

(6) Net working capital decreased in fiscal 2017 compared with fiscal 2016 primarily due to a $172 million increase in current portion of long-term debt and a $161 million decrease associated with net working capital of discontinued operations.

ITEM 7. 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 Consolidated Financial Statements and accompanying Notes appearing elsewhere in this Report. 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:

- Business Considerations — a general description of our business; the value drivers of our business; fiscal 2018 results of operations and liquidity and capital resources key indicators; and industry-wide opportunities, challenges and risks that are relevant to us in defense, government and commercial markets.
- Operations Review — an analysis of our consolidated results of operations and of the results in each of our business segments, to the extent the segment operating results are helpful to an understanding of our business as a whole, for the three years presented in our financial statements.
- Liquidity, Capital Resources and Financial Strategies — an analysis of cash flows, funding of pension plans, common stock repurchases, dividends, capital structure and resources, contractual obligations, off-balance sheet arrangements, commercial commitments, financial risk management, impact of foreign exchange and impact of inflation.
- Critical Accounting Policies and Estimates — a discussion of accounting policies and estimates that require the most judgment and a discussion of accounting pronouncements that have been issued but not yet implemented by us and their potential impact on our financial condition, 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.

BUSINESS CONSIDERATIONS

General

We generate revenue, income and cash flows by developing, manufacturing or providing, and selling advanced, technology-based solutions that solve government and commercial customers' mission-critical challenges. We support government and commercial customers in more than 100 countries, with our largest customers being various departments and agencies of the U.S. Government and their prime contractors. Our products, systems and services have defense and civil government applications, as well as commercial applications. As of the end of fiscal 2018, we had approximately 17,500 employees, including approximately 7,900 engineers and scientists. We generally sell directly to our customers, and we utilize agents and intermediaries to sell and market some products and services, especially in international markets.

We structure our operations primarily around the products, systems and services we sell and the markets we serve, and we report the financial results of our continuing operations in the following three reportable segments, which are also referred to as our business segments:

- Communication Systems, serving markets in tactical communications and defense products, including tactical ground and airborne radio communications solutions and night vision technology, and in public safety networks;
- Electronic Systems, providing electronic warfare, avionics, and C4ISR solutions for defense and classified customers and mission-critical communication systems for civil and military aviation and other customers; and
- Space and Intelligence Systems, providing intelligence, space protection, geospatial, complete Earth observation, universe exploration, PNT, and environmental solutions for national security, defense, civil and commercial customers, using advanced sensors, antennas and payloads, as well as ground processing and information analytics.

As described above and in more detail in Note 1: Significant Accounting Policies under “Principles of Consolidation” and in Note 3: Discontinued Operations and Divestitures in the Notes, we completed the divestiture of CapRock in the third quarter of fiscal 2017 and the divestiture of IT Services in the fourth quarter of fiscal 2017. CapRock and IT Services were part of our former Critical Networks segment and are reported as discontinued operations in this Report. Our historical financial results have been restated for all periods presented in this Report to account for businesses reported as discontinued operations in this Report. Except for disclosures related to our cash flows, or unless otherwise specified, disclosures in this Report relate solely to our continuing operations.

In connection with entering into the definitive agreement to sell IT Services, our other remaining operations that had been part of our former Critical Networks segment, including our ATM business and our PMRF program, were integrated with our Electronic Systems segment effective for the third quarter of fiscal 2017, and our Critical Networks segment was eliminated. The historical results, discussion and presentation of our business segments as set forth in this Report reflect the impact of these changes for all periods presented in order to present all segment information on a comparable basis. There is no impact on our previously reported consolidated statements of income, balance sheets or statements of cash flows resulting from these segment changes.

Value Drivers of Our Business

In recent years, we have reshaped our portfolio of businesses to focus on high-growth, high-margin businesses, successfully integrated Exelis and made investments that led to several new product launches and strategic program awards. Fiscal 2018 marked an inflection point as we returned to growth across all three business segments, maintained strong margins through our focus on operational excellence and recorded significantly higher orders that drove a 26 percent increase in backlog for fiscal 2018 compared with fiscal 2017. In addition to dividends and share repurchases, we made debt repayments and voluntary pension plan contributions that expanded our future financial flexibility. We plan to build on our strong fiscal 2018 performance, and together with a well-funded U.S. Government budget and a continued focus on operational excellence and innovation, we believe we are well positioned to achieve our fiscal 2019 strategic priorities, which include the following:

- Accelerating revenue growth across all three business segments;
- Driving flawless execution while expanding margins through operational excellence; and
- Sustaining cash flow with shareholder friendly capital deployment.

We expect a more favorable budget environment, especially in strategic areas, our solid fiscal 2018 backlog growth and strong customer relationships to serve as the basis for accelerating revenue growth across our business segments in fiscal 2019. The Government Fiscal Year (“GFY”) 2018 Omnibus Appropriations Bill reflected that our programs continue to remain a priority for U.S. Government customers, and President Trump’s GFY 2019 budget proposal would fully fund all of our major DoD and civil agency programs. For Communication Systems, DoD tactical modernization programs are beginning to increase across all the services, and we expect our international tactical business to be able to leverage its incumbent position and large installed base and benefit from higher defense spending by coalition partners. In Electronic Systems, we believe we are entering a multi-year growth cycle driven by our position on long-term avionics and electronic warfare platforms. For Space and Intelligence Systems, we believe, in a growing budget environment, we will be able to maintain high win-rates and expand into adjacencies in order to accelerate growth in classified programs, and we expect our environmental business to stabilize and return to growth.

We believe operational leverage from accelerating growth across our business segments, combined with our continued focus on operational excellence and innovation, will drive margin expansion and increased profitability.

Our operational excellence program, Harris Business Excellence (“HBX”), is focused on streamlining processes, eliminating waste, reducing costs, optimizing program execution and increasing customer satisfaction. We are approximately half-way through standardizing our IT systems, which we expect will dramatically reduce the number of enterprise resource planning platforms, simplify our operating environment, drive productivity through growth in shared services, automate core processes and lay the foundation of our enterprise-wide digital strategy. We are working toward eliminating many of our data centers and making the remainder cloud-enabled. We also are continuing to focus on cost savings in our supply chain through “value engineering” and “should-cost” analysis, as well as improving supplier performance and reducing sole-sourced components on legacy solutions.

Innovation is at the core of our success, and R&D investment represents the foundation for innovation. We are fundamentally reshaping how we design and develop new products to get more out of our R&D investment. We are deploying “DevOps” to streamline software development, which has grown to be a significant portion of our engineering work today and is expected to increase over time. We also use standardized processes and common metrics to track progress and gauge success, as well as core technology centers to more fully leverage R&D investment across our Company.

During fiscal 2018, we returned to our shareholders $272 million in dividends and another $272 million through share repurchases. We also used $271 million for net repayment of borrowings and $300 million for a voluntary contribution to our U.S. defined benefit plans, which helped reduce our net unfunded defined benefit plans liability by 44 percent to $0.7 billion or 11 percent of total liabilities at the end of fiscal 2018. In fiscal 2019, we believe accelerating revenue growth across our business segments, margin expansion and increased profitability will improve our operating cash flow, which we expect to use for increased dividends, share repurchases, debt repayments and reinvestment to grow our strategic businesses.

Key Indicators

We believe our value drivers, when implemented, will improve our financial results, including: revenue; income from continuing operations; income from continuing operations as a percentage of revenue; income from continuing operations per diluted common share; net cash provided by operating activities; return on invested capital; return on average equity; and consolidated total indebtedness to total capital ratio. The measure of our success is reflected in our results of operations and liquidity and capital resources key indicators as discussed below.

Fiscal 2018 Results of Operations Key Indicators: Revenue, income from continuing operations, income from continuing operations per diluted common share and income from continuing operations as a percentage of revenue represent key measurements of our value drivers:

- Revenue increased 5 percent to $6.2 billion in fiscal 2018 from $5.9 billion in fiscal 2017;
- Income from continuing operations increased 13 percent to $721 million in fiscal 2018 from $638 million in fiscal 2017;
- Income from continuing operations as a percentage of revenue increased to 12 percent in fiscal 2018 from 11 percent in fiscal 2017; and
- Income from continuing operations per diluted common share increased 16 percent to $5.94 in fiscal 2018 from $5.12 in fiscal 2017, reflecting both the increase in income from continuing operations as noted above and fewer diluted common shares outstanding due to repurchases of shares of common stock under our repurchase program during fiscal 2018.

Refer to MD&A heading “Operations Review” below in this Report for more information.

Liquidity and Capital Resources Key Indicators: Net cash provided by operating activities, return on invested capital, return on average equity, our consolidated total indebtedness to total capital ratio and our net unfunded defined benefit plans liability also represent key measurements of our value drivers:

- Net cash provided by operating activities increased to $751 million in fiscal 2018 from $569 million in fiscal 2017;
- Return on invested capital (defined as after-tax operating income from continuing operations divided by the two-point average of invested capital at the beginning and end of the fiscal year, where invested capital equals equity plus debt, less cash and cash equivalents) increased to 13 percent in fiscal 2018 from 11 percent in fiscal 2017;
- Return on average equity (defined as income from continuing operations divided by the two-point average of equity at the beginning and end of the fiscal year) increased to 23 percent in fiscal 2018 from 21 percent in fiscal 2017;
- Our consolidated total indebtedness to total capital ratio at June 29, 2018 was 53 percent, compared with our 65 percent covenant limitation under our senior unsecured revolving credit facility; and
- Our net unfunded defined benefit plans liability decreased $0.6 billion in fiscal 2018 to $0.7 billion at June 29, 2018 compared with $1.3 billion at June 30, 2017.

Refer to MD&A heading “Liquidity, Capital Resources and Financial Strategies” below in this Report for more information on net cash provided by (used in) operating, investing and financing activities.

Industry-Wide Opportunities, Challenges and Risks

Department of Defense and Other U.S. Federal Markets: Our largest customers are various departments and agencies of the U.S. Government — the percentage of our revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, in fiscal 2018, 2017 and 2016 was approximately 75 percent, 74 percent and 77 percent, respectively. The GFY 2018 (U.S. Government fiscal years begin October 1 and end September 30) budget cycle ended with the Omnibus Appropriations Bill being passed by Congress and signed by President Trump on March 23, 2018. Our programs were fully funded and continue to remain priorities for U.S. Government customers.

In February 2018, President Trump submitted a budget proposal for GFY 2019 to Congress that would fully fund all of our major DoD and civil agency programs. The GFY 2019 budget proposal includes $617 billion in DoD base funding and an additional $69 billion in Overseas Contingency Operations (“OCO”) funding. The DoD budget proposal would increase funding across all of the services, including SOCOM, compared with GFY 2018 Omnibus Appropriations Bill levels.

In February 2018, President Trump signed into law the Bipartisan Budget Act of 2018 (“BBA 2018”), which increased the sequester caps on discretionary defense spending imposed by the Budget Control Act of 2011 (“BCA”) by $80 billion in GFY 2018 and $85 billion in GFY 2019, providing more certainty in the near-term budget planning process.

The BCA had previously established limits on discretionary spending and reduced planned defense spending by $487 billion over a ten-year period beginning with GFY 2012. The BCA also provided additional automatic spending reductions, known as sequestration, that would have resulted in an additional $500 billion reduction to planned defense spending over a nine-year period beginning with GFY 2013. The BBA 2018 did not impact GFYs 2020 through 2022 — the budget caps and the across-the-board spending reduction methodology provided under the BCA remain intact.

On August 12, 2018, President Trump signed the 2019 National Defense Authorization Act, and although we anticipate debate will continue within the U.S. Government over defense spending for GFY 2019 (which may have a significant impact on defense spending broadly and on our specific programs), our programs have been well supported in the GFY 2018 Omnibus Appropriations Bill and the President's GFY 2019 budget proposal.

Government Oversight and Risk: As a U.S. Government contractor, we are subject to U.S. Government oversight. The U.S. Government may investigate our business practices and audit our compliance with applicable rules and regulations. Depending on the results of those investigations and audits, the U.S. Government could make claims against us. Under U.S. Government procurement regulations and practices, an indictment or conviction of a government contractor could result in that contractor being fined and/or suspended from being able to bid on, or from being awarded, new U.S. Government contracts for a period of time determined by the U.S. Government. Similar government oversight exists in most other countries where we conduct business.

For a discussion of risks relating to U.S. Government contracts and subcontracts, see "Item 1. Business — Principal Customers; Government Contracts" and "Item 1A. Risk Factors" of this Report. We are also subject to other risks associated with U.S. Government business, including technological uncertainties, dependence on annual appropriations and allotment of funds, extensive regulations and other risks, which are discussed in "Item 1A. Risk Factors" and "Item 3. Legal Proceedings" of this Report.

State and Local: We also provide products to state and local government agencies that are committed to protecting our homeland and public safety. The public safety market was in fiscal 2018, and is expected to continue to be in fiscal 2019, highly competitive and dependent on state and local government budgets. Future market opportunities include upgrading aging analog infrastructure to new digital standards, as well as opportunities associated with next-generation LTE solutions for high data-rate applications.

International: We believe there is continuing international demand from military and government customers for tactical radios, public safety communications, electronic warfare equipment, air traffic management, electronic attack and release systems and ISR. We believe we can leverage our domain expertise and proven technology provided in the U.S. to further expand our international business.

We believe that our experience, technologies and capabilities are well aligned with the demand and requirements of the markets noted above in this Report. However, we remain subject to the spending levels, pace and priorities of the U.S. Government as well as international governments and commercial customers, and to general economic conditions that could adversely affect us, our customers and our suppliers. We also remain subject to other risks associated with these markets, including technological uncertainties, adoption of our new products and other risks that are discussed below in this Report under "Forward-Looking Statements and Factors that May Affect Future Results" and in "Item 1A. Risk Factors" of this Report.

OPERATIONS REVIEW

Consolidated Results of Operations

	Fiscal Years Ended				
	2018	2017	2018/2017 Percent Increase/ (Decrease)	2016	2017/2016 Percent Increase/ (Decrease)
	(Dollars in millions, except per share amounts)				
Revenue:					
Communication Systems	$1,903	$1,753	9 %	$1,864	(6)%
Electronic Systems	2,373	2,251	5 %	2,233	1 %
Space and Intelligence Systems	1,921	1,902	1 %	1,899	—
Corporate eliminations	(15)	(6)	*	(4)	*
Total revenue	6,182	5,900	5 %	5,992	(2)%
Cost of product sales and services:					
Cost of product sales	(3,106)	(2,964)	5 %	(3,079)	(4)%
% of revenue from product sales	61 %	64 %		64 %	
Cost of services	(825)	(770)	7 %	(753)	2 %
% of revenue from services	74 %	62 %		64 %	
Total cost of product sales and services	(3,931)	(3,734)	5 %	(3,832)	(3)%
% of total revenue	64 %	63 %		64 %	
Gross margin	2,251	2,166	4 %	2,160	—
% of total revenue	36 %	37 %		36 %	
Engineering, selling and administrative expenses	(1,129)	(1,093)	3 %	(1,105)	(1)%
% of total revenue	18 %	19 %		18 %	
Operating income	1,122	1,073	5 %	1,055	2 %
% of total revenue	18 %	18 %		18 %	
Non-operating income (loss)	(28)	2	*	10	*
Net interest expense	(168)	(170)	(1)%	(181)	(6)%
Income from continuing operations before income taxes	926	905	2 %	884	2 %
Income taxes	(205)	(267)	(23)%	(273)	(2)%
Effective tax rate	22 %	30 %		31 %	
Income from continuing operations	$721	$638	13 %	$611	4 %
% of total revenue	12 %	11 %		10 %	
Income from continuing operations per diluted common share	$5.94	$5.12	16 %	$4.87	5 %

* Not meaningful

Revenue

Fiscal 2018 Compared With Fiscal 2017: The increase in revenue in fiscal 2018 compared with fiscal 2017 was primarily due to higher DoD tactical radio sales in our Communication Systems segment, reflecting readiness and modernization demand from the U.S. Army and U.S. Air Force, and higher Avionics and Electronic Warfare revenue from long-term avionics platforms, including the F-35, F/A-18 and F-16, and higher revenue from C4ISR (including wireless solutions) in our Electronic Systems segment.

Fiscal 2017 Compared With Fiscal 2016: The decrease in revenue in fiscal 2017 compared with fiscal 2016 was primarily due to lower Tactical Communications revenue in our Communication Systems segment and lower revenue due to the impact of the divestiture of our Aerostructures business in the fourth quarter of fiscal 2016, which contributed $60 million of revenue in fiscal 2016 in our Electronic Systems segment, and the impact of certain environmental and commercial space programs in our Space and Intelligence Systems segment transitioning from a build-out to a sustainment phase, partially offset by higher revenue from the ramp up of the United Arab Emirates

BMS-ELTS integrated battle management system program and from Electronic Warfare in our Electronic Systems segment and by $36 million of higher revenue from classified customers in our Space and Intelligence Systems segment.

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

Gross Margin

Fiscal 2018 Compared With Fiscal 2017: Gross margin increased in fiscal 2018 compared with fiscal 2017 primarily due to higher revenue, partially offset by a 1 percentage point decrease in gross margin as a percentage of revenue ("gross margin percentage"). The decrease in gross margin percentage in fiscal 2018 compared with fiscal 2017 reflected a less favorable mix of program revenue and product sales and an unfavorable impact from the ADS-B program, including a favorable contract settlement in the second quarter of fiscal 2017 and the program transition from build-out to sustainment, partially offset by productivity savings and incremental pension income.

Fiscal 2017 Compared With Fiscal 2016: Gross margin increased in fiscal 2017 compared with fiscal 2016 primarily due to a 1 percentage point increase in gross margin percentage reflecting cost containment, integration-related synergy savings and higher pension income, partially offset by lower margins from the ADS-B program as it transitioned from build-out to sustainment in the third and fourth quarters of fiscal 2017 and the margin impact of lower revenue in our Communication Systems segment.

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

Engineering, Selling and Administrative Expenses

Fiscal 2018 Compared With Fiscal 2017: The increase in engineering, selling and administrative ("ESA") expenses in fiscal 2018 compared with fiscal 2017 was primarily due to $47 million of charges related to our decision to transition and exit a commercial air-to-ground LTE radio communications line of business and other items, higher employment and distribution costs and a $12 million non-cash adjustment for deferred compensation, partially offset by a $53 million reduction in Exelis acquisition-related and other charges in fiscal 2018 compared with fiscal 2017. The decrease in ESA expenses as a percentage of revenue ("ESA percentage") in fiscal 2018 compared with fiscal 2017 was primarily due to cost containment.

Overall Company-sponsored R&D costs were $311 million in fiscal 2018 compared with $310 million in fiscal 2017.

Fiscal 2017 Compared With Fiscal 2016: The decrease in ESA expenses in fiscal 2017 compared with fiscal 2016 was primarily due to cost containment, integration-related synergy savings and a $63 million reduction in integration and other costs associated with our acquisition of Exelis in the fourth quarter of 2015, partially offset by the benefit in fiscal 2016 of $101 million net liability reduction for certain post-employment benefit plans recorded during the second quarter of fiscal 2016. ESA percentage in fiscal 2017 was comparable with fiscal 2016.

Overall Company-sponsored R&D costs were $310 million in fiscal 2017 compared with $305 million in fiscal 2016.

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

Operating Income

Fiscal 2018 Compared With Fiscal 2017: The increase in operating income and comparability of operating income as a percentage of total revenue ("operating margin percentage") in fiscal 2018 compared with fiscal 2017 were primarily due to the combined effects of the reasons noted above in this "Consolidated Results of Operations" discussion regarding fiscal 2018 and 2017.

Fiscal 2017 Compared With Fiscal 2016: The increase in operating income and comparability of operating margin percentage in fiscal 2017 compared with fiscal 2016 were primarily due to the combined effects of the reasons noted above in this "Consolidated Results of Operations" discussion regarding fiscal 2017 and 2016.

Non-Operating Income (Loss)

Fiscal 2018 Compared With Fiscal 2017: Non-operating loss in fiscal 2018 was primarily due to $27 million of losses and other costs related to debt refinancing in the fourth quarter of fiscal 2018. Non-operating income in fiscal 2017 was primarily due to an adjustment to the net gain on the sale of Aerostructures.

Fiscal 2017 Compared With Fiscal 2016: Non-operating income in fiscal 2017 was primarily due to the same reason as noted above for fiscal 2017 non-operating income. Non-operating income in fiscal 2016 was primarily due to a $10 million net gain on the divestiture of Aerostructures during the fourth quarter of fiscal 2016.

See Note 19: Non-Operating Income (Loss) in the Notes for further information.

Net Interest Expense

Fiscal 2018 Compared With Fiscal 2017: Our net interest expense decreased in fiscal 2018 compared with fiscal 2017 primarily due to lower average debt levels as a result of $271 million of net repayment of borrowings, which included our repayment at maturity of the entire outstanding $500 million aggregate principal amount of our 1.999% Notes due April 27, 2018. See Note 12: Debt in the Notes for further information.

Fiscal 2017 Compared With Fiscal 2016: Our net interest expense decreased in fiscal 2017 compared with fiscal 2016 primarily due to lower average debt levels as a result of $499 million of net repayment of borrowings, which included $313 million of repayment of our variable-rate term loans and our repayment of the entire outstanding $250 million aggregate principal amount of our 4.25% notes due October 1, 2016.

Income Taxes

Fiscal 2018 Compared With Fiscal 2017: In fiscal 2018, our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) benefited from the net favorable impact of:

- The enactment of a lower U.S. statutory corporate income tax rate in fiscal 2018;
- Additional research credits claimed on our fiscal 2017 tax return compared with our recorded estimates at the end of fiscal 2017; and
- The favorable impact of releasing provisions for uncertain tax positions.

In fiscal 2017, our effective tax rate benefited from:

- The favorable impact of excess tax benefits related to equity-based compensation;
- Several differences between U.S. generally accepted accounting principles ("GAAP") and tax accounting related to investments; and
- Additional deductions and additional research credits claimed on our fiscal 2016 tax return compared with our recorded estimates at the end of fiscal 2016.

Fiscal 2017 Compared With Fiscal 2016: The major discrete items from which our fiscal 2017 effective tax rate benefited are those noted for fiscal 2017 in the preceding discussion under "Income Taxes." In fiscal 2016, our effective tax rate benefited from:

- Settlement of several items for amounts that were lower than previously recorded estimates;
- 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 the periods following December 31, 2015;
- Recognition of a tax loss, net of valuation allowances, upon the divestiture of Aerostructures;
- State tax reductions resulting from our integration of Exelis operations; and
- Several differences between GAAP and tax accounting related to investments.

See Note 21: Income Taxes in the Notes for further information.

Income From Continuing Operations

Fiscal 2018 Compared With Fiscal 2017: The increase in income from continuing operations in fiscal 2018 compared with 2017 was primarily due to the combined effects of the reasons noted above in this "Consolidated Results of Operations" discussion regarding fiscal 2018 and 2017.

Fiscal 2017 Compared With Fiscal 2016: The increase in income from continuing operations in fiscal 2017 compared with 2016 was primarily due to the combined effects of the reasons noted above in this "Consolidated Results of Operations" discussion regarding fiscal 2017 and 2016.

Income From Continuing Operations Per Diluted Common Share

Fiscal 2018 Compared With Fiscal 2017: The increase in income from continuing operations per diluted common share in fiscal 2018 compared with fiscal 2017 was due to the increase in income from continuing operations in fiscal 2018 compared with fiscal 2017 and the net impact of shares of our common stock repurchased under our repurchase program during fiscal 2018, shares issued under our stock incentive and defined contribution plans and the incremental dilutive impact of share-based awards during fiscal 2018 compared with fiscal 2017.

Fiscal 2017 Compared With Fiscal 2016: The increase in income from continuing operations per diluted common share in fiscal 2017 compared with fiscal 2016 was due to the increase in income from continuing operations in fiscal 2017 compared with fiscal 2016 and fewer diluted weighted average common shares outstanding due to significant levels of repurchases of shares of common stock under our repurchase program during fiscal 2017.

See the "Common Stock Repurchases" discussion and the "Common Stock" paragraph of the "Capital Structure and Resources" discussion below in this MD&A for further information.

Discontinued Operations, Net of Income Taxes

See Note 3: Discontinued Operations and Divestitures in the Notes for information regarding IT Services and CapRock, which are reported as discontinued operations in this Report. As a result, our historical financial results have been restated to account for IT Services and CapRock as discontinued operations for all periods presented in this Report.

Discussion of Business Segment Results of Operations
Communication Systems Segment

	2018	2017	2018/2017 Percent Increase/ (Decrease)	2016	2017/2016 Percent Increase/ (Decrease)
	(Dollars in millions)				
Revenue	$1,903	$1,753	9 %	$1,864	(6)%
Cost of product sales and services	(992)	(894)	11 %	(941)	(5)%
Gross margin	911	859	6 %	923	(7)%
% of revenue	48 %	49 %		50 %	
ESA expenses	(340)	(335)	1 %	(401)	(16)%
% of revenue	18 %	19 %		22 %	
Segment operating income	$571	$524	9 %	$522	—
% of revenue	30 %	30 %		28 %	

Fiscal 2018 Compared With Fiscal 2017: The increase in segment revenue in fiscal 2018 compared with fiscal 2017 was primarily due to $138 million higher DoD tactical radio sales, reflecting readiness and modernization demand from the U.S. Army and U.S. Air Force, and higher Night Vision revenue primarily due to demand from the U.S. Army.

The increase in segment gross margin in fiscal 2018 compared with fiscal 2017 was primarily attributable to the increase in revenue. Segment gross margin percentage decreased 1 percentage point in fiscal 2018 compared with fiscal 2017 due to the impact of a less favorable mix of program revenue and product sales, mostly offset by productivity savings. The increase in segment ESA expenses in fiscal 2018 compared with fiscal 2017 was primarily due to higher employment costs, partially offset by cost containment. The decrease in segment ESA percentage in fiscal 2018 compared with fiscal 2017 was primarily due to cost containment. The increase in segment operating income and comparability in segment operating margin percentage in fiscal 2018 compared with fiscal 2017 reflected the combined effects of the items discussed above regarding this segment.

The percentage of this segment’s revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 48 percent in fiscal 2018 and 42 percent in fiscal 2017.

Fiscal 2017 Compared With Fiscal 2016: The decrease in segment revenue in fiscal 2017 compared to fiscal 2016 was primarily due to $85 million lower revenue from legacy Exelis tactical radios and night vision products and the wind-down of a significant international network project in Public Safety and Professional Communications.

The decrease in segment gross margin in fiscal 2017 compared with fiscal 2016 was primarily attributable to the decrease in revenue, partially offset by lower restructuring charges. Segment gross margin percentage decreased 1 percentage point in fiscal 2017 compared with fiscal 2016, despite 6 percent lower revenue and a less favorable revenue mix, primarily due to cost containment and Exelis acquisition integration-related synergy savings. The decreases in segment ESA expenses and ESA percentage in fiscal 2017 compared with fiscal 2016 were primarily due to cost containment, lower restructuring costs and Exelis acquisition integration-related synergy savings. The slight increase in segment operating income and the increase in segment operating margin percentage in fiscal 2017 compared with fiscal 2016 reflected the combined effects of the items discussed above regarding this segment for fiscal 2017 and 2016. Segment operating margin percentage increased 2 percentage points in fiscal 2017 compared with fiscal 2016 despite the impact of 6 percent lower revenue over the same period.

The percentage of this segment’s revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 42 percent in fiscal 2017 and 52 percent in fiscal 2016.

Electronic Systems Segment

	2018	2017	2018/2017 Percent Increase/ (Decrease)	2016	2017/2016 Percent Increase/ (Decrease)
	(Dollars in millions)				
Revenue	$2,373	$2,251	5 %	$2,233	1 %
Cost of product sales and services	(1,651)	(1,529)	8 %	(1,539)	(1)%
Gross margin	722	722	—	694	4 %
% of revenue	30 %	32 %		31 %	
ESA expenses	(281)	(258)	9 %	(264)	(2)%
% of revenue	12 %	11 %		12 %	
Segment operating income	$441	$464	(5)%	$430	8 %
% of revenue	19 %	21 %		19 %	

Fiscal 2018 Compared With Fiscal 2017: The increase in segment revenue in fiscal 2018 compared with fiscal 2017 was primarily due to $75 million of higher Avionics and Electronic Warfare revenue from long-term platforms, including the F-35, F/A-18 and F-16, and $46 million higher revenue from C4ISR (including wireless solutions), reflecting the ramp up of the U.K. Robotics and BMS-ELTS programs, partially offset by lower revenue from Mission Networks.

The comparability of segment gross margin and the decrease in segment gross margin percentage in fiscal 2018 compared with fiscal 2017 were primarily due to a $36 million unfavorable impact from the ADS-B program, including a favorable contract settlement in the second quarter of fiscal 2017 and the program transition from build-out to sustainment, and a less favorable mix of program revenue, partially offset by productivity savings. The increases in segment ESA expenses and ESA percentage in fiscal 2018 compared with fiscal 2017 were primarily due to increased R&D investments, higher employment costs and timing of other expense accruals.

The decreases in segment operating income and operating margin percentage in fiscal 2018 compared fiscal 2017 reflected the combined effects of the items discussed above regarding this segment.

The percentage of this segment's revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 82 percent in fiscal 2018 and fiscal 2017.

Fiscal 2017 Compared With Fiscal 2016: The increase in segment revenue in fiscal 2017 compared with fiscal 2016 was primarily due to higher revenue from the ramp up of the BMS-ELTS program and from electronic warfare solutions, partially offset by $60 million of lower revenue attributable to the divestiture of Aerostructures in the fourth quarter of fiscal 2016 and $41 million of lower revenue from the impact of the ADS-B program transition from a build-out to a sustainment phase.

The increases in segment gross margin and gross margin percentage in fiscal 2017 compared with fiscal 2016 were primarily due to continued strong program performance principally from Electronic Warfare and higher pension income, partially offset by a $21 million unfavorable margin impact from the ADS-B program transitioning from a build-out to a sustainment phase. The decreases in segment ESA expenses and ESA percentage in fiscal 2017 compared with fiscal 2016 was primarily due to Exelis acquisition integration-related synergy savings and $8 million of charges for restructuring and other costs recorded in fiscal 2016, partially offset by $13 million of higher R&D expenses. The increases in segment operating income and operating margin percentage in fiscal 2017 compared with fiscal 2016 reflected the combined effects of the items discussed above regarding this segment for fiscal 2017 and 2016. Segment operating margin percentage increased 2 percentage points in fiscal 2017 compared with fiscal 2016 despite revenue increasing only 1 percent over the same period.

The percentage of this segment's revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 82 percent in fiscal 2017 and 83 percent in fiscal 2016.

Space and Intelligence Systems Segment

	2018	2017	2018/2017 Percent Increase/ (Decrease)	2016	2017/2016 Percent Increase/ (Decrease)
	(Dollars in millions)				
Revenue	$1,921	$1,902	1 %	$1,899	—
Cost of product sales and services	(1,303)	(1,317)	(1)%	(1,355)	(3)%
Gross margin	618	585	6 %	544	8 %
% of revenue	32 %	31 %		29 %	
ESA expenses	(282)	(274)	3 %	(256)	7 %
% of revenue	15 %	14 %		13 %	
Segment operating income	$336	$311	8 %	$288	8 %
% of revenue	17 %	16 %		15 %	

Fiscal 2018 Compared With Fiscal 2017: The increase in segment revenue in fiscal 2018 compared with fiscal 2017 was primarily due to higher revenue from classified programs, primarily driven by space superiority programs, and $14 million higher revenue from commercial customers, offset by $30 million of lower civil revenue reflecting the impact of lower revenue from environmental programs.

The increases in segment gross margin and gross margin percentage in fiscal 2018 compared with fiscal 2017 were primarily due to a more favorable mix of program revenue and incremental pension income. The increases in segment ESA expenses and ESA percentage in fiscal 2018 compared with fiscal 2017 were primarily due to higher employment costs and the timing of other expense accruals.

The increases in segment operating income and operating margin percentage in fiscal 2018 compared with fiscal 2017 reflected the combined effects of the items discussed above regarding this segment.

The percentage of this segment's revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 93 percent in fiscal 2018 and 95 percent in fiscal 2017.

Fiscal 2017 Compared With Fiscal 2016: Segment revenue in fiscal 2017 increased slightly compared with fiscal 2016, primarily due to $36 million of higher revenue from classified customers, mostly offset by lower revenue from the impact of certain environmental and commercial space programs transitioning from a build-out to a sustainment phase.

The increases in segment gross margin and gross margin percentage in fiscal 2017 compared with fiscal 2016 were primarily attributable to improved program performance and higher pension income, partially offset by a $30 million impact due to lower revenue from relatively higher-margin environmental and commercial space programs. The increases in segment ESA expenses and ESA percentage in fiscal 2017 compared with fiscal 2016 were primarily due to higher R&D and proposal expenses. The increases in segment operating income and operating margin percentage in fiscal 2017 compared with fiscal 2016 reflected the combined effects of the items discussed above regarding this segment for fiscal 2017 and 2016. Segment operating margin percentage increased 1 percentage point in fiscal 2017 compared with fiscal 2016 despite slight revenue growth over the same period.

The percentage of this segment's revenue that was derived from sales to U.S. Government customers, including foreign military sales funded through the U.S. Government, whether directly or through prime contractors, was approximately 95 percent in fiscal 2017 and fiscal 2016.

Unallocated Corporate Expense and Corporate Eliminations

	2018	2017	2018/2017 Percent Increase/ (Decrease)	2016	2017/2016 Percent Increase/ (Decrease)
	(Dollars in millions)				
Unallocated corporate expense and corporate eliminations	$125	$117	7 %	$76	54 %
Amortization of intangible assets from Exelis Inc. acquisition	101	109	(7 %)	109	— %

Unallocated corporate expense and corporate eliminations represents the portion of corporate expenses not allocated to our business segments and elimination of intersegment profits. Because the Exelis acquisition benefited our entire Company as opposed to any individual segment, we recorded the acquired intangible assets as Corporate assets and the related amortization expense as unallocated corporate expense. Unallocated corporate expense is reported as part of the "Engineering, selling and administrative expenses" line item in our Consolidated Financial Statements.

Fiscal 2018 Compared With Fiscal 2017: The increase in unallocated corporate expense in fiscal 2018 compared with fiscal 2017 was primarily due to $47 million of charges related to our decision to transition and exit a commercial air-to-ground LTE radio communications line of business and other items, a $12 million non-cash adjustment for deferred compensation and the timing of other expense accruals, partially offset by a $53 million reduction in Exelis acquisition-related and other charges in fiscal 2018 compared with fiscal 2017.

Fiscal 2017 Compared With Fiscal 2016: The increase in unallocated corporate expense in fiscal 2017 compared with fiscal 2016 was primarily due to a net liability reduction of $101 million for certain post-employment benefit plans in the second quarter of fiscal 2016, partially offset by a $63 million decrease in Exelis acquisition-related and other charges.

LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL STRATEGIES

Cash Flows

	Fiscal Years Ended 2018	2017	2016
	(Dollars in millions)		
Net cash provided by operating activities	$751	$569	$924
Net cash provided by (used in) investing activities	(141)	870	(1)
Net cash used in financing activities	(805)	(1,438)	(893)
Effect of exchange rate changes on cash and cash equivalents	(1)	(4)	(24)
Net increase (decrease) in cash and cash equivalents	(196)	(3)	6

Cash and cash equivalents, beginning of year	484	487	481
Cash and cash equivalents, end of year	$288	$484	$487

Cash and cash equivalents

The $196 million net decrease in cash and cash equivalents from the end of fiscal 2017 to the end of fiscal 2018 was primarily due to:

- $751 million of net cash provided by operating activities, reflecting the impact of a $300 million voluntary pension contribution; and
- $34 million of proceeds from exercises of employee stock options; more than offset by
- $272 million used to pay cash dividends;
- $272 million used to repurchase shares of our common stock;
- $271 million used for net repayments of borrowings, including:

$850 million in proceeds from the issuance of our 4.40% Notes due June 15, 2028,

$300 million in proceeds from the issuance of our Floating Rate Notes due February 27, 2019,

$250 million in proceeds from the issuance of our Floating Rate Notes due April 30, 2020,

$500 million used for repayment at maturity of the entire outstanding aggregate principal amount of our 1.999% Notes due April 27, 2018,

$415 million used for the optional redemption of our 4.40% Notes due December 15, 2020,

$429 million used for the optional redemption of our 5.55% Notes due October 1, 2021,

$269 million used for repayment of our remaining outstanding indebtedness under the 5-year tranche of our variable-rate term loans due May 29, 2020, and
$36 million used for repayment of our remaining outstanding indebtedness under the 3-year tranche of our variable-rate term loans due May 29, 2018;
- $136 million used for net additions of property, plant and equipment; and
- $24 million used in other financing activities.

The $3 million net decrease in cash and cash equivalents from the end of fiscal 2016 to the end of fiscal 2017 was primarily due to:
- $1,014 million of net proceeds from sales of businesses;
- $569 million of net cash provided by operating activities, reflecting the impact of a $400 million voluntary pension contribution;
- $85 million of net proceeds from borrowings;
- $54 million of proceeds from exercises of employee stock options; more than offset by
- $710 million used to repurchase shares of our common stock;
- $584 million of net repayment of borrowings, including:
$313 million used for repayment of our variable-rate term loans, and
$250 million used for repayment at maturity of the entire outstanding aggregate principal amount of our 4.25% notes due October 1, 2016;
- $262 million used to pay cash dividends;
- $119 million used for net additions of property, plant and equipment;
- $25 million for net adjustments to proceeds from the sale of a business; and
- $21 million used in other financing activities.

We ended fiscal 2018 with cash and cash equivalents of $288 million, and we have a senior unsecured $1 billion revolving credit facility that expires in June 2023 ($925 million of which was available to us as of June 29, 2018 as a result of $75 million of short-term debt outstanding under our commercial paper program). Additionally, we had $3.4 billion of long-term debt outstanding at June 29, 2018, 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 12: Debt in the Notes. Our $288 million of cash and cash equivalents at June 29, 2018 included $134 million held by our foreign subsidiaries, of which $69 million is considered permanently reinvested. Determining the future tax cost of repatriating such funds to the U.S. is not practical at this time, because the cost impact of the rules regarding the netting of earnings of related foreign subsidiaries is subject to clarification. However, 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 current 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 program and repayments of our debt securities at maturity for the next 12 months and reasonably foreseeable future thereafter. Our total capital expenditures in fiscal 2019 are expected to be approximately $170 million. We anticipate tax payments in fiscal 2019 to be approximately equal to or marginally less than our tax expense for the same period, subject to adjustment for certain timing differences. For additional information regarding our income taxes, see Note 21: Income Taxes in the Notes. Other than those cash outlays noted in the “Contractual Obligations” discussion below in this MD&A (including repayment at maturity of the entire $300 million principal amount of our Floating Rate Notes due February 27, 2019), capital expenditures, dividend payments, repurchases under our share repurchase program and potential acquisitions, we do not anticipate any significant cash outlays in fiscal 2019.

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 $182 million increase in net cash provided by operating activities in fiscal 2018 compared with fiscal 2017 was primarily due to a $288 million decrease in cash used for qualified pension plan contributions, partially offset by a $102 million increase in cash used to fund working capital, net of lower cash paid for income taxes. The increase in cash used to fund working capital included $33 million associated with our discontinued operations that were included in the first three quarters of fiscal 2017.

The $355 million decrease in net cash provided by operating activities in fiscal 2017 compared with fiscal 2016 was primarily due to $415 million more in qualified pension plan contributions, including a $400 million voluntary contribution, and an increase in cash used in Exelis integration activities, partially offset by settlement of the Exelis excess pension plan in fiscal 2016 and an increase in cash provided by changes in working capital balances.

Cash flow from operations was positive in all of our business segments in fiscal 2018, 2017 and 2016.

Net cash provided by (used in) investing activities: The $141 million in net cash used in investing activities in fiscal 2018 compared with $870 million provided by investing activities in fiscal 2017 primarily reflected the absence in fiscal 2018 of any proceeds from sales of businesses, which totaled $1,014 million in fiscal 2017 (consisting of $646 million of net proceeds from the sale of IT Services and $368 million of net proceeds from the sale of CapRock).

The $870 million in net cash provided by investing activities in fiscal 2017 compared with $1 million used in investing activities in fiscal 2016 primarily reflected $833 million more in net proceeds from sales of businesses (consisting of $646 million of net proceeds from the sale of IT Services and $368 million of net proceeds from the sale of CapRock in fiscal 2017, compared with $181 million in net proceeds from the sale of Aerostructures in fiscal 2016), as well as $33 million less used for net additions of property, plant and equipment.

Net cash used in financing activities: The $633 million decrease in net cash used in financing activities in fiscal 2018 compared with fiscal 2017 was primarily due to $438 million less cash used to repurchase our common stock and $228 million less cash used for net repayment of borrowings (reflecting $271 million of cash used for net repayment of borrowings in fiscal 2018 compared with $499 million of cash used to repay borrowings in fiscal 2017).

The $545 million increase in net cash flows used in financing activities in fiscal 2017 compared with fiscal 2016 was primarily due to $710 million more cash used to repurchase our common stock, partially offset by $170 million less cash used for net repayment of borrowings (reflecting $499 million of cash used for net repayment of borrowings in fiscal 2017 compared with $669 million of cash used to repay borrowings in fiscal 2016).

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 plan or make benefit payments. With respect to our 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 ("HATFA") and the Bipartisan Budget Act of 2015 further extended the interest rate stabilization provision of MAP-21 until 2020. We made voluntary contributions of $300 million and $400 million to our U.S. qualified pension plans during fiscal 2018 and 2017, respectively. As a result, we currently do not anticipate making any contributions to our U.S. qualified pension plans during fiscal 2019.

Future required contributions primarily will depend 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 approximately $0.7 billion as of June 29, 2018 compared with approximately $1.3 billion as of June 30, 2017. See Note 13: Pension and Other Postretirement Benefits in the Notes for further information regarding our defined benefit plans.

Common Stock Repurchases

During fiscal 2018, we used $272 million to repurchase 1,959,435 shares of our common stock under our current repurchase program at an average price per share of $138.89, including commissions of $.02 per share. During fiscal 2017, we used $710 million to repurchase 6,637,239 shares of our common stock under our current and prior repurchase programs at an average price per share of $107.00, including (i) $350 million we paid on February 6, 2017 for 2,929,879 and 277,357 shares of our common stock received in the third and fourth quarters of fiscal 2017, respectively, under a fixed-dollar ASR transaction agreement we entered into February 6, 2017, (ii) $250 million we paid on May 5, 2017 for 1,931,818 and 296,952 shares of our common stock received in the fourth quarter of fiscal 2017 and the first quarter of fiscal 2018, respectively, under a fixed-dollar

ASR transaction agreement we entered into May 7, 2017, and (iii) approximately $110 million to repurchase an additional 1,201,233 shares of our common stock at an average price per share of $91.72, including commissions of $.02 per share. Pursuant to each of the fixed-dollar ASR transactions we entered into to repurchase an unspecified total number of shares of our common stock, the counterparty delivered to us shares of our common stock during the term of the transaction in exchange for an up-front fixed dollar payment. The specific total number of shares ultimately delivered, and therefore the average price paid per share, was determined at the end of the transaction based on the average of the daily volume-weighted average price per share of our common stock during the term of the transaction, less a discount. Shares delivered pursuant to ASR transactions were retired in the period of delivery, and the up-front payment was accounted for as a reduction to the "Other capital" and "Retained earnings" line items in our Consolidated Balance Sheet in the period the payment was made. In fiscal 2018 and fiscal 2017, $17 million and $21 million, respectively, in shares of our common stock were delivered to us or withheld by us to satisfy withholding taxes on employee share-based awards. Shares repurchased by us are cancelled and retired.

On January 26, 2017, our Board of Directors approved our current repurchase program, which is a $1 billion share repurchase program that does not have a stated expiration date and was in addition to our prior repurchase program, a $1 billion share repurchase program approved in 2013. Our repurchases during the fourth quarter of fiscal 2017 used the entire remaining authorization under our prior repurchase program. As of June 29, 2018, we had a remaining, unused authorization of approximately $701 million under our current repurchase program. Repurchases under our repurchase program are expected to be funded with available cash and commercial paper and may be made through open market purchases, private transactions, transactions structured through investment banking institutions or any combination thereof. The 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 current repurchase program is set forth above under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Report.

Dividends

On August 25, 2018, our Board of Directors increased the quarterly cash dividend rate on our common stock from $.57 per share to $.685 per share, for an annualized cash dividend rate of $2.74 per share, which was our seventeenth consecutive annual increase in our quarterly cash dividend rate. Our annualized cash dividend rate in fiscal 2018, 2017 and 2016 was $2.28 per share, $2.12 per share and $2.00 per share, respectively. 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 our Board of Directors may deem relevant. Additional information concerning our dividends is set forth above under "Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" of this Report.

Capital Structure and Resources

2018 Credit Agreement: As discussed in Note 11: Credit Arrangements in the Notes, on June 26, 2018, we established a new $1 billion, 5-year senior unsecured revolving credit facility (the "2018 Credit Facility") by entering into a Revolving Credit Agreement (the "2018 Credit Agreement") with a syndicate of lenders. The 2018 Credit Facility replaced our prior $1 billion, 5-year senior unsecured revolving credit facility (the "2015 Credit Facility"). The description of the 2018 Credit Facility and the 2018 Credit Agreement set forth in Note 11: Credit Arrangements in the Notes is incorporated herein by reference.

Short-Term Debt: Our short-term debt at June 29, 2018 and June 30, 2017 was $78 million and $80 million, respectively, consisting of local borrowing by international subsidiaries for working capital needs and commercial paper. Our commercial paper program was supported by the 2018 Credit Facility at June 29, 2018 and by the 2015 Credit Facility at June 30, 2017.

Long-Term Variable-Rate Debt: The description of our long-term variable-rate debt set forth in Note 12: Debt in the Notes is incorporated herein by reference. As discussed in Note 12: Debt in the Notes, during the third quarter of fiscal 2018, we completed the issuance and sale of $300 million in aggregate principal amount of Floating Rate Notes due February 27, 2019 and used the proceeds to make a voluntary contribution to our U.S. qualified pension plans. During the second quarter of fiscal 2018, we completed the issuance and sale of $250 million in aggregate principal amount of Floating Rate Notes due April 30, 2020 and used the net proceeds, together with cash on hand, to repay in full the $253 million in remaining outstanding indebtedness under the 5-year tranche of our $1.3 billion senior unsecured term loan facility pursuant to our Term Loan Agreement, dated as of March 16, 2015. We repaid the entire $305 million in remaining outstanding indebtedness under our variable-rate term loans during fiscal 2018.

Long-Term Fixed-Rate Debt: The description of our long-term fixed-rate debt set forth in Note 12: Debt in the Notes is incorporated herein by reference. As discussed in Note 12: Debt in the Notes, on June 4, 2018, in order to fund our optional redemption of the Redeemed Notes described below, we completed the issuance and sale of $850 million in aggregate principal amount of 4.400% Notes due June 15, 2028. On June 22, 2018, we completed our optional redemption of the entire outstanding $400 million aggregate principal amount of our 4.4% Notes due December 15, 2020 (the "4.4% 2020 Notes") and $400 million aggregate principal amount of our 5.55% Notes due October 1, 2021 (the "2021 Notes" and collectively with the 4.4% 2020 Notes, the "Redeemed Notes") at a "make-whole" redemption price as set forth in the 4.4% 2020 Notes and the 2021 Notes, respectively. The combined "make-whole" redemption price for the Redeemed Notes was $844 million. The Redeemed Notes were terminated and cancelled. During the fourth quarter of fiscal 2018, we also repaid at maturity the entire outstanding $500 million aggregate principal amount of our 1.999% Notes due April 27, 2018.

During fiscal 2017, we repaid at maturity the entire outstanding $250 million aggregate principal amount of our 4.25% Notes due October 1, 2016.

Other Agreements: We have a receivable sales agreement ("RSA") with a third-party financial institution that permits us to sell, on a non-recourse basis, up to $50 million of outstanding receivables at any given time. From time to time, we have sold certain customer receivables under the RSA, which we continue to service and collect on behalf of the third-party financial institution and which we account for as sales of receivables with sale proceeds included in net cash from operating activities. The impact to net cash from operating activities from these transactions was not material in fiscal 2018, 2017 or 2016.

Contractual Obligations

At June 29, 2018, we had contractual cash obligations to repay debt, to purchase goods and services and to make payments under operating leases. Payments due under these long-term obligations are as follows:

	Obligations Due by Fiscal Year				
	Total	2019	2020 and 2021	2022 and 2023	After 2023
	(Dollars in millions)				
Long-term debt	$3,740	$305	$658	$1	$2,776
Purchase obligations (1)	1,224	932	259	32	1
Operating lease commitments	280	58	100	68	54
Interest on long-term debt	2,058	157	280	264	1,357
Minimum pension contributions (2)	1	1	—	—	—
Total contractual cash obligations	$7,303	$1,453	$1,297	$365	$4,188

(3)

(1) The purchase obligations of $1.2 billion included $127 million of purchase obligations related to cost-plus type contracts where our costs are fully reimbursable.
(2) Amount includes fiscal 2019 minimum contributions to a non-U.S. pension plan. Contributions beyond fiscal 2019 have not been determined. During fiscal 2018 and 2017, we made voluntary contributions of $700 million to our U.S. qualified pension plans, and as a result, we currently do not anticipate making any contributions to our U.S. qualified pension plans during fiscal 2019.
(3) The above table does not include unrecognized tax benefits of $102 million.

Off-Balance Sheet Arrangements

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

- Any obligation under certain guarantee contracts;
- A retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- Any obligation, including a contingent obligation, under certain derivative instruments; and
- Any obligation, including a contingent obligation, under a material variable interest 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 R&D services with the registrant.

As of June 29, 2018, we were not participating in any material transactions that generated 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 June 29, 2018, we did not have material financial guarantees or other contractual commitments that are reasonably likely to adversely affect our financial condition, results of operations or cash flows, and we were not a party to any related party transactions that materially affect our financial condition, 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 condition, 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. If 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 condition, results of operations or cash flows.

Commercial Commitments

We have entered into commercial commitments in the normal course of business including surety bonds, standby letter of credit agreements and other arrangements with financial institutions and customers primarily relating to the guarantee of future performance on certain contracts to provide products and services to customers or to obtain insurance policies with our insurance carriers. At June 29, 2018, we had commercial commitments on outstanding surety bonds, standby letters of credit and other arrangements, as follows:

		Expiration of Commitments by Fiscal Year			
	Total	2019	2020	2021	After 2021
	(Dollars in millions)				
Surety bonds used for:					
Bids	$6	$5	$ 1	$ —	$ —
Performance	425	339	75	11	—
	431	344	76	11	—
Standby letters of credit used for:					
Down payments	124	108	6	—	10
Performance	155	109	4	2	40
Warranty	18	16	1	—	1
	297	233	11	2	51
Total commitments	$728	$577	$ 87	$ 13	$ 51

The surety bonds and standby letters of credit used for performance are primarily related to Public Safety and Professional Communications. As is customary in bidding for and completing network infrastructure projects for public safety systems, contractors are required to procure surety bonds and/or standby letters of credit for bids, performance, warranty and other purposes (collectively, “Performance Bonds”). Such Performance Bonds normally have maturities of up to three years and are standard in the industry as a way to provide customers a mechanism to seek redress if a contractor does not satisfy performance requirements under a contract. Typically, a customer is permitted to draw on a Performance Bond if we do not fulfill all terms of a project contract. In such an event, we would be obligated to reimburse the financial institution that issued the Performance Bond for the amounts paid. It has been rare for our Public Safety and Professional Communications business to have a Performance Bond drawn upon. In addition, pursuant to the terms under which we procure Performance Bonds, if our credit ratings are lowered to below “investment grade,” we may be required to provide collateral to support a portion of the outstanding amount of Performance Bonds. Such a downgrade could increase the cost of the issuance of Performance Bonds and could make it more difficult to procure Performance Bonds, which would adversely impact our ability to compete for contract awards. Such collateral requirements could also result in less liquidity for other operational needs or corporate purposes. In addition, any future disruptions, uncertainty or volatility in financial and insurance markets could also adversely affect our ability to obtain Performance Bonds and may result in higher funding costs.

Financial Risk Management

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 June 29, 2018 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 18: Derivative Instruments and Hedging Activities in the Notes for additional information.

Interest Rates: As of June 29, 2018, 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 June 29, 2018 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 fixed-rate debt obligations over the next twelve months.

As of June 29, 2018, we also had long-term variable-rate debt obligations of $550 million, comprised of $250 million of Floating Rate Notes due April 30, 2020 and $300 million of Floating Rate Notes due February 27, 2019. These debt obligations 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 debt obligations at June 29, 2018 would not have had a material impact on our results of operations or cash flows. See Note 12: Debt in the Notes for further information.

As of June 29, 2018, we also had short-term variable-rate debt outstanding, primarily under our commercial paper program, subject to interest rate risk. We utilize our commercial paper program to satisfy short-term cash requirements, including bridge financing for strategic acquisitions until longer-term financing arrangements are put in place, temporarily funding repurchases under our share repurchase programs and temporarily funding redemption of long-term debt. The interest rate risk associated with such debt on our results of operations and cash flows is not material due to its temporary nature.

Impact of Foreign Exchange

Approximately 24 percent of our international business was transacted in local currency environments in fiscal 2018 compared with 20 percent in fiscal 2017. The impact of translating the assets and liabilities of these operations to U.S. dollars is included as a component of shareholders' equity. As of June 29, 2018, the cumulative foreign currency translation adjustment included in shareholders' equity was a $99 million loss compared with a $113 million loss at June 30, 2017. We utilize foreign currency hedging instruments to minimize the currency risk of international transactions. Gains and losses resulting from currency rate fluctuations did not have a material effect on our results in fiscal 2018, 2017 or 2016.

Impact of Inflation

To the extent feasible, we have consistently followed the practice of adjusting our prices to reflect the impact of inflation on salaries and fringe benefits for employees and the cost of purchased materials and services. Inflation and changing prices did not materially adversely impact our gross margin, revenue or operating income in fiscal 2018, 2017 or 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The following is not intended to be a comprehensive list of our accounting policies or estimates. Our significant accounting policies are more fully described in Note 1: Significant Accounting Policies in the Notes. In preparing our financial statements and accounting for the underlying transactions and balances, we apply our accounting policies and estimates as disclosed in the Notes. We consider the policies and estimates discussed below as critical to an understanding of our financial statements because their application places the most significant demands on our judgment, with financial reporting results dependent on estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Specific risks for these critical accounting estimates are described in the following paragraphs. The impact and any associated risks related to these estimates on our business operations are discussed throughout this MD&A where such estimates affect our reported and expected financial results. Senior management has discussed the development and selection of the critical accounting policies and estimates and the related disclosure included herein with the Audit Committee of our Board of Directors. Preparation of this Report requires us to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of our financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

Besides estimates that meet the “critical” accounting estimate criteria, we make many other accounting estimates in preparing our financial statements and related disclosures. All estimates, whether or not deemed “critical,” affect reported amounts of assets, liabilities, revenue and expenses as well as disclosures of contingent assets and liabilities. Estimates are based on experience and other information available prior to the issuance of the financial statements. Materially different results can occur as circumstances change and additional information becomes known, including for estimates that we do not deem “critical.”

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 under the contract (i.e., the “cost-to-cost” 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 certain extent, revenue in our Communication Systems segment) 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 generally are 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 customers 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 we review the progress and performance on our ongoing development and production contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, at the outset of a cost-reimbursable contract (for example, contracts containing award or incentive fees), we establish an estimate of total contract value, or revenue, based on our expectation of performance on the contract. As the cost-reimbursable contract progresses, our estimates of total contract value may increase or decrease if, for example, we receive higher or lower than expected award fees. When adjustments in estimated total costs at completion or in 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:

	2018	2017	2016
	(In millions)		
Favorable adjustments	$127	$118	$187
Unfavorable adjustments	(125)	(104)	(119)
Net operating income adjustments	$2	$14	$68

There were no individual impacts to operating income due to estimate at completion adjustments in fiscal 2018, 2017 or 2016 that were material to our results of operations on a consolidated or segment basis for such periods.

We also recognize revenue from arrangements requiring the delivery or performance of multiple deliverables or elements under a bundled sale. In these arrangements, judgment is required to determine the appropriate accounting, including whether the individual deliverables represent separate units of accounting for revenue recognition purposes, and the timing of revenue recognition for each deliverable. If we determine that individual deliverables represent separate units of accounting, we recognize the revenue associated with each unit of accounting separately, and contract revenue is allocated among the separate units of accounting at the inception of the arrangement based on relative selling price. If options or change orders materially change the scope of work or price of the contract subsequent to inception, we reevaluate and adjust our prior conclusions regarding units of accounting and allocation of contract revenue as necessary. The allocation of selling price among the separate units of accounting may impact the timing of revenue recognition, but will not change the total revenue recognized on the arrangement. We establish the selling price used for each deliverable based on the vendor-specific objective evidence ("VSOE") of selling price, or third-party evidence ("TPE") of selling price if VSOE of selling price is not available, or best estimate of selling price ("BESP") if neither VSOE 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.

The FASB has issued a comprehensive new revenue recognition standard that supersedes nearly all existing revenue recognition guidance under GAAP, which is effective for us in fiscal 2019. See Note 2: Accounting Changes or Recent Accounting Pronouncements in the Notes for additional information.

Postretirement Benefit Plans

Former Exelis employees participate in numerous defined benefit pension and other postretirement defined benefit plans (collectively, referred to as "defined benefit plans") in the United States, which are sponsored by Harris. The determination of projected benefit obligations and the recognition of expenses related to defined benefit pension plans are dependent on various assumptions. These major assumptions primarily relate to discount rates, long-term expected rates of return on plan assets, rate of future compensation increases, mortality, termination and other factors (some of which are disclosed in Note 13: Pension and Other Postretirement Benefits in the Notes). Actual results that differ from our assumptions are accumulated and generally amortized for each plan to the extent required over the estimated future life expectancy or, if applicable, the future working lifetime of the plan's active participants.

Significant Assumptions

We develop assumptions using relevant experience, in conjunction with market-related data for each plan. Assumptions are reviewed annually with third party consultants and adjusted as appropriate. The table included below provides the weighted average assumptions used to estimate projected benefit obligations and net periodic benefit cost as they pertain to our defined benefit pension plans.

Obligation assumptions as of:	June 29, 2018	June 30, 2017
Discount rate	4.05%	3.76%
Rate of future compensation increase	2.76%	2.76%

Cost assumptions for fiscal years:	2018	2017
Discount rate to determine service cost	3.48%	3.80%
Discount rate to determine interest cost	3.28%	2.94%
Expected return on plan assets	7.66%	7.65%
Rate of future compensation increase	2.76%	2.75%

Key assumptions for the U.S. Salaried Retirement Plan ("U.S. SRP") (our largest defined benefit plan, with approximately 90% of the total projected benefit obligation) included a discount rate for obligation assumptions of 4.07% and expected return on plan assets of 7.75% for fiscal 2018, which is being maintained at 7.75% for fiscal 2019. Effective December 31, 2016, accruals under the U.S. SRP benefit formula were frozen for all employees and replaced with a 1% cash balance benefit formula for certain employees who were not highly compensated on December 31, 2016.

Expected Return on Plan Assets

Substantially all of our plan assets are managed on a commingled basis in a master investment trust. We determine our expected return on plan assets by evaluating both historical returns and estimates of future returns. Specifically, we consider the plan's actual historical annual return on assets over the past 15, 20 and 25 years and historical broad market returns over long-term time frames based on our strategic allocation, which is detailed in Note 13: Pension and Other Postretirement Benefits in the Notes. Future returns are based on independent estimates of long-term asset class returns. Based on this approach, the long-term annual rate of return on assets was estimated at 7.66% and 7.65% for fiscal 2018 and 2017, respectively.

Discount Rate

The discount rate is used to calculate the present value of expected future benefit payments at the measurement date. A decrease in the discount rate increases the present value of benefit obligations and generally decreases pension expense. The discount rate assumption is based on current investment yields of high-quality fixed income investments during the retirement benefits maturity period. The pension discount rate is determined by considering an interest rate yield curve comprising AAA/

AA bonds, with maturities between zero and thirty years, developed by the plan's actuaries. Annual benefit payments are then discounted to present value using this yield curve to develop a single discount rate matching the plan's characteristics.

In fiscal 2017, we changed the approach used to estimate 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 using the applicable spot rates derived from the yield curve used to discount the cash flows used to measure the benefit obligation. Prior to fiscal 2017, we estimated these service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation at the beginning of the period.

We made this change to provide a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and the corresponding spot yield curve rates. We accounted for this change as a change in accounting estimate and accordingly accounted for it prospectively. Although the benefit obligation measured under this approach was unchanged, the more granular application of the spot rates reduced the fiscal 2017 service and interest costs for the U.S. defined benefit plans by approximately $46 million as a result of this change.

Sensitivity Analysis

Pension Expense

A 25 basis point change in the long-term expected rate of return on plan assets and discount rate would have the following effect on the combined U.S. defined benefit pension plans' fiscal 2019 pension expense:

	Increase/(Decrease) in Pension Expense	
	25 Basis Point Increase	25 Basis Point Decrease
	(In millions)	
Long-term rate of return on assets used to determine net periodic benefit cost	$ (12.3)	$ 12.2
Discount rate used to determine net periodic benefit cost	$ 7.4	$ (7.8)

Projected Benefit Obligation

Funded status is derived by subtracting the respective year-end values of the projected benefit obligations ("PBO") from the fair value of plan assets. The sensitivity of the PBO to changes in the discount rate varies depending on the magnitude and direction of the change in the discount rate. We estimate that a decrease of 25 basis points in the discount rate of the combined U.S. defined benefit pension plans would increase the PBO by approximately $150 million and an increase of 25 basis points would decrease the PBO by approximately $144 million.

Fair Value of Plan Assets

The plan assets of our defined benefit plans comprise a broad range of investments, including domestic and international equity securities, fixed income investments, interests in private equity and hedge funds and cash and cash equivalents.

A portion of our defined benefit plans asset portfolio is comprised of investments in private equity and hedge funds. The private equity and hedge fund investments are generally measured using the valuation of the underlying investments or at net asset value. However, in certain instances, the values reported by the asset managers were not current at the measurement date. Consequently, we have estimated adjustments to the last reported value where necessary to measure the assets at fair value at the measurement date. These adjustments consider information received from the asset managers, as well as general market information. Asset values for other positions were generally measured using market observable prices. See Note 13: Pension and Other Postretirement Benefits in the Notes for further information.

Provisions for Excess and Obsolete Inventory Losses

We value our inventory at the lower of cost or net realizable value. We balance the need to maintain prudent inventory levels to ensure competitive delivery performance with the risk of excess or obsolete inventory due to changing technology and customer requirements. We regularly review inventory quantities on hand and record a provision for excess and obsolete inventory primarily based on our estimated forecast of product demand, anticipated end of product life and production requirements. The review of excess and obsolete inventory applies to all of our business segments. Several factors may influence the sale and use of our inventories, including our decision to exit a product line, technological change and new product development. These factors could result in a change in the amount of obsolete inventory quantities on hand. Additionally, our estimates of future product demand may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. In the future, if we determine that our inventory is overvalued, we would be required to recognize such costs in the “Cost of product sales” line item in our Consolidated Statement of Income at the time of such determination. In the case of goods that have been written down below cost, such reduced amount is to be considered the cost for subsequent accounting purposes. We have not made any material changes in the reserve methodology used to establish our inventory loss reserves during the past three fiscal years.

As of June 29, 2018, our reserve for excess and obsolete inventory was $66 million, or 14 percent of our gross inventory balance, which compares with our reserve of $52 million, or 12 percent of our gross inventory balance, as of June 30, 2017. Although we make reasonable efforts to ensure the accuracy of our forecasts of future product demand, including the impact of planned future product launches, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and our reported operating results.

Goodwill

Goodwill in our Consolidated Balance Sheet as of June 29, 2018 and June 30, 2017 was $5,372 million and $5,366 million, respectively. Goodwill is not amortized. We perform annual (or under certain circumstances, more frequent) impairment tests of our goodwill. We identify potential impairment by comparing the fair value of each of our reporting units with its carrying amount, including goodwill, which is adjusted for allocations of corporate assets and liabilities as appropriate. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

IT Services Goodwill Allocation and Impairment

As described in more detail in Note 3: Discontinued Operations and Divestitures in the Notes, we entered into a definitive agreement to sell IT Services on January 26, 2017 and completed the sale on April 28, 2017.

Because the then-pending divestiture of IT Services represented the disposal of a portion of a reporting unit within our former Critical Networks segment, we assigned $487 million of goodwill to the IT Services disposal group on a relative fair value basis during the third quarter of fiscal 2017, when the held for sale criteria were met. The fair value of the IT Services disposal group was determined based on the negotiated selling price, and the fair value of the retained businesses (which comprised the remaining portion of the reporting unit) was determined based on a combination of market-based valuation techniques, utilizing quoted market prices and comparable publicly reported transactions, and projected discounted cash flows. These fair value determinations are categorized as Level 3 in the fair value hierarchy due to their use of internal projections and unobservable measurement inputs.

In conjunction with the relative fair value allocation, we tested goodwill assigned to the disposal group and goodwill assigned to the retained businesses for impairment. As a result, we concluded, in connection with the preparation of our financial statements for the third quarter of fiscal 2017, that goodwill and other assets related to IT Services were impaired as of March 31, 2017, and we recorded a non-cash impairment charge of $240 million in discontinued operations, $228 million of which related to goodwill. The goodwill impairment charge was non-deductible for tax purposes.

Fiscal 2016, 2017 and 2018 Impairment Tests

We estimate fair values of our reporting units based on projected cash flows, and sales and/or earnings multiples applied to the latest twelve months’ sales and earnings of our reporting units. Projected cash flows are based on our best estimate of future sales, operating costs and balance sheet metrics reflecting our view of the financial and market conditions of the underlying business; and the resulting cash flows are discounted using an appropriate discount rate that reflects the risk in the forecasted cash flows. The sales and earnings multiples applied to the sales and earnings of our reporting units are based on current multiples of sales and earnings for similar businesses, and based on sales and earnings multiples paid for recent acquisitions of similar businesses made in the marketplace. We then assess whether any implied control premium, based on a comparison of fair value based purely on our stock price and outstanding shares with fair value determined by using all of the above-described models, is reasonable. We have not made any material changes during the past three fiscal years in the methodology used in the assessment of whether or not goodwill is impaired.

In the fourth quarter of fiscal 2016, 2017 and 2018, we performed our annual impairment tests of our reporting units’ goodwill. We completed these tests with no adjustment required to the goodwill of any of our reporting units. As of the date of our fiscal 2018 impairment test, the estimated fair value for each of our reporting units exceeded its carrying amount.

Income Taxes and Tax Valuation Allowances

We record the estimated future tax effects of temporary differences between the tax basis of assets and liabilities and amounts reported in our Consolidated Balance Sheet, as well as operating loss and tax credit carryforwards. We follow very specific and detailed guidelines in each tax jurisdiction regarding the recoverability of any tax assets recorded on the balance sheet and provide necessary valuation allowances as required. Future realization of deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character (for example, ordinary income or capital gain) within the carryback or carryforward periods available under the tax law. We regularly review our deferred tax assets for recoverability based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and tax planning strategies. We have not made any material changes in the methodologies used to determine our tax valuation allowances during the past three fiscal years.

Our Consolidated Balance Sheet as of June 29, 2018 included deferred tax assets of $116 million and deferred tax liabilities of $90 million. This compares with deferred tax assets of $409 million and deferred tax liabilities of $34 million as of

June 30, 2017. For all jurisdictions for which we have net deferred tax assets, we expect that our existing levels of pre-tax earnings are sufficient to generate the amount of future taxable income needed to realize these tax assets. Our valuation allowance related to deferred income taxes, which is reflected in our Consolidated Balance Sheet, was $181 million as of June 29, 2018 and $183 million as of June 30, 2017. Although we make reasonable efforts to ensure the accuracy of our deferred tax assets, if we continue to operate at a loss in certain jurisdictions or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, or if the potential impact of tax planning strategies changes, we could be required to increase the valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase in our effective tax rate and a material adverse impact on our operating results.

Impact of Recently Issued Accounting Pronouncements

Accounting pronouncements that have recently been issued but have not yet been implemented by us are described in Note 2: Accounting Changes or Recent Accounting Pronouncements in the Notes, which describes the potential impact that these pronouncements are expected to have on our financial condition, results of operations and cash flows.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS

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. Other factors besides those listed here also could adversely affect us. See “Item 1A. Risk Factors” of this Report for more information regarding factors that might cause our results to differ materially from those expressed in or implied by the forward-looking statements contained in this Report.

- We depend on U.S. Government customers for a significant portion of our revenue, and the loss of these relationships, a reduction in U.S. Government funding or a change in U.S. Government spending priorities could have an adverse impact on our business, financial condition, results of operations and cash flows.
- We depend significantly on U.S. Government contracts, which often are only partially funded, subject to immediate termination, and heavily regulated and audited. The termination or failure to fund, or negative audit findings for, one or more of these contracts could have an adverse impact on our business, financial condition, results of operations and cash flows.
- We could be negatively impacted by a security breach, through cyber attack, cyber intrusion, insider threats or otherwise, or other significant disruption of our IT networks and related systems or of those we operate for certain of our customers.
- The U.S. Government’s budget deficit, the national debt and sequestration, as well as any inability of the U.S. Government to complete its budget process for any government fiscal year and consequently having to operate on funding levels equivalent to its prior fiscal year pursuant to a “continuing resolution” or shut down, 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 financial condition, results of operations 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.
- Strategic transactions, including acquisitions and divestitures, involve significant risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows.
- Disputes with our subcontractors or the inability of our subcontractors to perform, or our key suppliers to timely deliver our components, parts or services, could cause our products, systems 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 condition, results of operations and cash flows.
- We face certain significant risk exposures and potential liabilities that may not be covered adequately by insurance or indemnity.
- Changes in our effective tax rate may have an adverse effect on our results of operations.
- Our level of indebtedness and our ability to make payments on or service our indebtedness and our unfunded defined benefit plans 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 condition, 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 any failure to do so could seriously harm us.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

In the normal course of business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We employ established policies and procedures governing the use of financial instruments to manage our exposure to such risks. For a discussion of such policies and procedures and the related risks, see “Financial Risk Management” in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Report, which is incorporated by reference into this Item 7A.

In addition, we are exposed to market return fluctuations on our defined benefit plans. A material adverse decline in the value of these assets and/or the discount rate for projected benefit obligations would result in a decrease in the funded status of the defined benefit plans, an increase in net periodic benefit cost and an increase in required funding. To protect against declines in the discount rate (i.e., interest rates), we will continue to monitor the performance of these assets and market conditions as we evaluate the amount of future contributions. For further information, see Note 13: Pension and Other Postretirement Benefits in the Notes, which information is incorporated by reference into this Item 7A.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

MANAGEMENT'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING

The management of Harris Corporation (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed to provide reasonable assurance, based on an appropriate cost-benefit analysis, regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, with the participation of our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of June 29, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013 framework). Based on management's assessment and those criteria, management concluded that the Company maintained effective internal control over financial reporting as of June 29, 2018.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued a report on the effectiveness of the Company's internal control over financial reporting. This report appears on page 57 of this Annual Report on Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Harris Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Harris Corporation (the Company) as of June 29, 2018 and June 30, 2017, the related consolidated statements of income, comprehensive income (loss), cash flows and equity for each of the three years in the period ended June 29, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(2), collectively referred to as the “consolidated financial statements.” In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at June 29, 2018 and June 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended June 29, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of June 29, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated August 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since at least 1932, but we are unable to determine the specific year.

Orlando, Florida

August 27, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Harris Corporation

Opinion on Internal Control over Financial Reporting

We have audited Harris Corporation's internal control over financial reporting as of June 29, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Harris Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of June 29, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Harris Corporation as of June 29, 2018 and June 30, 2017, the related consolidated statements of income, comprehensive income (loss), cash flows and equity for each of the three years in the period ended June 29, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(2) and our report dated August 27, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulation of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitation of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transaction and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorization of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP
Orlando, Florida
August 27, 2018

CONSOLIDATED STATEMENT OF INCOME

	Fiscal Years Ended		
	2018	2017	2016
	(In millions, except per share amounts)		
Revenue from product sales and services			
Revenue from product sales	$ 5,062	$ 4,667	$ 4,814
Revenue from services	1,120	1,233	1,178
	6,182	5,900	5,992
Cost of product sales and services			
Cost of product sales	(3,106)	(2,964)	(3,079)
Cost of services	(825)	(770)	(753)
	(3,931)	(3,734)	(3,832)
Engineering, selling and administrative expenses	(1,129)	(1,093)	(1,105)
Operating income	1,122	1,073	1,055
Non-operating income (loss)	(28)	2	10