



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

Form 10-Q/A

(Mark One)

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

For the quarterly period ended December 28, 2007

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 001-33278

HARRIS STRATEX NETWORKS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

20-5961564

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

637 Davis Drive
Morrisville, North Carolina

(Address of principal executive offices)

27560

(Zip Code)

(919) 767-3250

(Registrant's telephone number, including area code)

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer Smaller reporting company
(Do not check if a smaller reporting company)

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

Class of Stock	Shares Outstanding as of January 31, 2008
Class A Common Stock, par value \$0.01 per share	25,505,703
Class B Common Stock, par value \$0.01 per share	32,913,377
Total shares of common stock outstanding	<u>58,419,080</u>

HARRIS STRATEX NETWORKS, INC.
FORM 10-Q/A
For the Quarter Ended December 28, 2007
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This Quarterly Report on Form 10-Q/A contains trademarks of Harris Stratex Networks, Inc.

EXPLANATORY NOTE

We have restated our unaudited condensed consolidated financial statements for the quarter and two quarters ended December 28, 2007 and December 29, 2006, in this Amendment to Form 10-Q (the "Form 10-Q/A") to our Quarterly Report on Form 10-Q for the quarter and two quarters ended December 28, 2007. This Form 10-Q/A also reflects the restatement of Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 4 "Controls and Procedures" for the quarter and two quarters ended December 28, 2007 and December 29, 2006, respectively. The restatement also affects, and is reflected in, other items in this Form 10-Q/A.

Previously filed (i) interim consolidated financial statements for the quarter and two quarters ended December 28, 2007 and December 29, 2006, respectively, (ii) the annual consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006, and July 1, 2005 included in the Company's Annual Report on Form 10-K for the year ended June 29, 2007 and (iii) related reports of its independent registered public accountants should no longer be relied upon.

Specifically, we have restated our unaudited condensed consolidated financial statements related to the following items:

- § Errors in project work in process inventory accounts within a cost accounting system at one location that resulted in project cost variances not being recorded to cost of sales in a timely manner.
- § Errors in the reconciliation of inventory and intercompany accounts receivable accounts which resulted in an overstatement of inventory and accounts receivable in prior years.
- § Errors in prior years' product warranty liability accruals which resulted in the improper exclusion of costs associated with technical assistance service provided by the Company under its standard warranty policy.

The effect of these restatement items decreased shareholders' equity cumulatively by \$13.2 million as of December 28, 2007 and \$11.6 million as of June 29, 2007. Net loss was increased by \$2.2 million and net income was decreased by \$1.3 million for the quarter ended December 28, 2007 and December 29, 2006, respectively, and net loss was increased by \$1.6 million and net income was decreased by \$0.6 million for the two quarters ended December 28, 2007 and December 29, 2006, respectively.

This restatement is more fully described in Part I herein under Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in Note C "Restatement of Previously Issued Financial Statements" to such unaudited consolidated financial statements.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

HARRIS STRATEX NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Quarter Ended		Two Quarters Ended	
	December 28, 2007 <u>(Restated)</u>	December 29, 2006 <u>(Restated)</u>	December 28, 2007 <u>(Restated)</u>	December 29, 2006 <u>(Restated)</u>
	(In millions, except per common share amounts)			
Revenue from product sales and services:				
Revenue from external product sales	\$ 148.9	\$ 82.5	\$ 297.5	\$ 164.4
Revenue from product sales with Harris Corporation	3.7	0.9	4.9	1.4
Total revenue from product sales	152.6	83.4	302.4	165.8
Revenue from services	28.5	17.8	51.0	29.0
Total revenue from product sales and services	181.1	101.2	353.4	194.8
Cost of product sales and services:				
Cost of external product sales	(98.2)	(51.4)	(207.1)	(103.3)
Cost of product sales with Harris Corporation	(3.3)	(2.1)	(3.6)	(2.4)
Total cost of product sales	(101.5)	(53.5)	(210.7)	(105.7)
Cost of services	(24.9)	(14.1)	(38.6)	(21.4)
Cost of sales billed from Harris Corporation	(4.0)	(0.1)	(4.6)	(2.7)
Amortization of purchased technology	(1.7)	—	(3.5)	—
Total cost of product sales and services	(132.1)	(67.7)	(257.4)	(129.8)
Gross margin	49.0	33.5	96.0	65.0
Research and development expenses	(10.9)	(8.3)	(23.3)	(15.8)
Selling and administrative expenses	(34.5)	(16.3)	(61.6)	(31.1)
Selling and administrative expenses with Harris Corporation	(1.7)	(1.5)	(3.4)	(3.1)
Total research, development, selling and administrative expenses	(47.1)	(26.1)	(88.3)	(50.0)
Amortization of identifiable intangible assets	(1.9)	—	(3.7)	—
Restructuring charges	(4.4)	(0.7)	(8.4)	(0.7)
Corporate allocations expense from Harris Corporation	—	(1.8)	—	(3.4)
Operating (loss) income	(4.4)	4.9	(4.4)	10.9
Interest income	0.4	0.2	1.1	0.3
Interest expense	(0.8)	(0.3)	(1.5)	(0.5)
(Loss) income before provision for income taxes	(4.8)	4.8	(4.8)	10.7
Benefit (provision) for income taxes	1.6	(0.3)	1.4	(0.7)
Net (loss) income	<u>\$ (3.2)</u>	<u>\$ 4.5</u>	<u>\$ (3.4)</u>	<u>\$ 10.0</u>
Basic and diluted net loss per common share:	<u>\$ (0.05)</u>	N/A	<u>\$ (0.06)</u>	N/A
Basic and diluted weighted average shares outstanding	58.4	N/A	58.4	N/A

N/A - Prior to January 26, 2007, the Company was a division of Harris Corporation and there were no shares outstanding for purposes of income or loss per share calculations.

See accompanying Notes to Condensed Consolidated Financial Statements.

HARRIS STRATEX NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 28, 2007 <u>(Restated)</u>	June 29, 2007 <u>(Restated)</u>
	(In millions, except share amounts)	
Assets		
<i>Current Assets</i>		
Cash and cash equivalents	\$ 73.0	\$ 69.2
Short-term investments and available for sale securities	10.0	20.4
Receivables	205.2	183.1
Unbilled costs	38.4	36.9
Inventories	116.1	124.2
Deferred income taxes	7.1	4.1
Other current assets	22.0	21.7
Total current assets	<u>471.8</u>	<u>459.6</u>
<i>Long-Term Assets</i>		
Property, plant and equipment	78.2	80.0
Goodwill	315.7	324.7
Identifiable intangible assets	137.2	144.5
Capitalized software	9.5	9.7
Non-current portion of notes receivable	4.1	5.3
Non-current deferred income taxes	0.1	0.5
Other assets	3.8	1.2
Total long-term assets	<u>548.6</u>	<u>565.9</u>
Total assets	<u>\$ 1,020.4</u>	<u>\$ 1,025.5</u>
Liabilities and Shareholders' Equity		
<i>Current Liabilities</i>		
Short-term debt	\$ —	\$ 1.2
Current portion of long-term debt	7.6	10.7
Accounts payable	96.5	84.7
Compensation and benefits	7.4	11.5
Other accrued items	44.9	45.8
Advance payments and unearned income	27.9	22.3
Income taxes payable	4.0	6.8
Restructuring liabilities	9.8	10.8
Current portion of long-term capital lease obligation to Harris Corporation	2.5	3.1
Due to Harris Corporation	16.2	17.2
Total Current Liabilities	<u>216.8</u>	<u>214.1</u>
<i>Long-Term Liabilities</i>		
Long-term debt	6.3	8.8
Long-term portion of capital lease obligation to Harris Corporation	1.8	2.8
Restructuring and other long-term liabilities	8.3	11.8
Redeemable preference shares	8.3	8.3
Warrants	3.1	3.9
Deferred income taxes	20.5	29.4
Total Liabilities	<u>265.1</u>	<u>279.1</u>
<i>Commitments and contingencies</i>		
<i>Shareholders' Equity</i>		
Common stock, Class A, \$0.01 par value; 300,000,000 shares authorized; issued and outstanding 25,476,101 shares at December 28, 2007 and 25,400,856 shares at June 29, 2007	0.3	0.3
Common stock, Class B \$0.01 par value; 100,000,000 shares authorized; issued and outstanding 32,913,377 shares at December 28, 2007 and June 29, 2007	0.3	0.3
Additional paid-in-capital	776.5	770.0
Accumulated deficit	(27.6)	(24.2)
Accumulated other comprehensive income	5.8	—
Total Shareholders' Equity	<u>755.3</u>	<u>746.4</u>
Total Liabilities and Shareholders' Equity	<u>\$ 1,020.4</u>	<u>\$ 1,025.5</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

HARRIS STRATEX NETWORKS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Two Quarters Ended	
	December 28, 2007 (Restated)	December 29, 2006 (Restated)
	(In millions)	
Operating Activities		
Net (loss) income	\$ (3.4)	\$ 10.0
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Amortization of identifiable intangible assets acquired in the Stratex acquisition	7.2	—
Depreciation and amortization of property, plant and equipment and capitalized software	9.4	6.2
Non-cash stock-based compensation expense	3.6	—
Non-cash charges for restructuring and inventory write-downs	7.8	—
Decrease in fair value of warrants	(0.8)	—
Deferred income tax (benefit) expense	(3.5)	—
Changes in operating assets and liabilities:		
Receivables	(20.7)	15.4
Unbilled costs and inventories	3.0	(23.1)
Accounts payable and accrued expenses	7.1	(4.5)
Advance payments and unearned income	5.5	6.4
Due to Harris Corporation	0.5	(12.3)
Other	(3.6)	(3.8)
Net cash provided by (used in) operating activities	<u>12.1</u>	<u>(5.7)</u>
Investing Activities		
Purchases of short-term investments and available for sale securities	(4.4)	—
Sales of short-term investments and available for sale securities	14.8	—
Additions of property, plant and equipment	(3.6)	(1.9)
Additions of capitalized software	(6.5)	(3.1)
Net cash provided by (used in) investing activities	<u>0.3</u>	<u>(5.0)</u>
Financing Activities		
Decrease in short-term debt	(1.2)	(0.1)
Payments on long-term debt	(5.6)	—
Payments on long-term capital lease obligation to Harris Corporation	(2.0)	—
Proceeds from exercise of former Stratex stock options	0.9	—
Net cash and other transfers from Harris Corporation prior to the Stratex acquisition	—	8.5
Net cash (used in) provided by financing activities	<u>(7.9)</u>	<u>8.4</u>
Effect of exchange rate changes on cash and cash equivalents	(0.7)	0.7
Net increase(decrease) in cash and cash equivalents	3.8	(1.6)
Cash and cash equivalents, beginning of year	69.2	13.8
Cash and cash equivalents, end of period	<u>\$ 73.0</u>	<u>\$ 12.2</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
December 28, 2007
(Unaudited)

Note A — Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Harris Stratex Networks, Inc. and its wholly-owned and majority-owned subsidiaries (“we,” “us” and “our”) and have been prepared by us, without an audit, in accordance with accounting principles generally accepted in the United States for interim financial information and with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, they do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and changes in cash flows in conformity with U.S. generally accepted accounting principles. In the opinion of our management, such financial statements reflect all adjustments (consisting only of normal, recurring adjustments) considered necessary for a fair presentation of financial position, results of operations and cash flows for such periods.

The results for the quarter ended December 28, 2007 are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet at June 29, 2007 has been derived from our audited financial statements but does not include all the information and footnotes required by generally accepted accounting principles in the United States for annual financial statements. We provide complete financial statements in our Annual Report on Form 10-K/A, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K/A for the fiscal year ended June 29, 2007 (“Fiscal 2007 Form 10-K/A”).

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the amounts reported in the condensed financial statements and accompanying notes. Actual results could differ from those estimates.

Prior to January 26, 2007, we were a division of Harris Corporation (“Harris”). For periods prior to January 26, 2007, our consolidated financial statements include the accounts of the MCD and Harris subsidiaries classified as part of MCD, our financial reporting predecessor entity. These financial statements have been determined to be the historical financial statements of Harris Stratex Networks, Inc. As used in these notes, the term “MCD” refers to the consolidated operations of the Microwave Communications Division of Harris.

For periods prior to January 26, 2007, our historical financial statements are presented on a carve-out basis and reflect the assets, liabilities, revenue and expenses that were directly attributable to MCD as it was operated within Harris. Our condensed consolidated statements of operations include all of the related costs of doing business, including an allocation of certain general corporate expenses of Harris, which were in support of MCD, including costs for finance, legal, treasury, purchasing, quality, environmental, safety, human resources, tax, audit and public relations departments and other corporate and infrastructure costs. We were allocated \$1.8 million and \$3.4 million for these general corporate expenses from Harris during the quarter and two quarters ended December 29, 2006. These costs represented approximately 10.2% and 10.0% of the total cost of these allocated services in the quarter and two quarters ended December 29, 2006. These cost allocations were based primarily on a ratio of our revenue to total Harris revenue, multiplied by the total headquarters expense of Harris. The allocation of Harris overhead expenses to us concluded on January 26, 2007. We believe these allocations were made on a reasonable basis. Harris currently owns approximately 56% of our common stock.

On January 26, 2007, we acquired Stratex Networks, Inc. (“Stratex”). The results of operations and cash flows of Stratex were not included in any of our consolidated financial statements before January 26, 2007.

Note B — Recent Accounting Pronouncements

Accounting for Uncertain Tax Positions

On June 30, 2007, we adopted Financial Accounting Standards Board (“FASB”) Interpretation No. 48 “Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109” (“FIN 48”). FIN 48 prescribes a “more-likely-than-not” threshold for the recognition and derecognition of tax positions, provides guidance on the accounting for interest and penalties relating to tax positions and requires that

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the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance in retained earnings (deficit) or other appropriate components of equity or net assets. Refer to Note O – Income Taxes, for additional information relating to our accounting for FIN 48 and income taxes.

Accounting for Business Combinations

On December 4, 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), “Business Combinations” (“Statement 141R”). Statement 141R requires that, upon a business combination, the acquired assets, assumed liabilities, contractual contingencies and contingent liabilities, be recognized and measured at their fair value at the acquisition date. Statement 141R also requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred. In addition, Statement 141R requires that acquired in-process research and development be measured at fair value and capitalized as an indefinite-lived intangible asset, and it is therefore not subject to amortization until the project is completed or abandoned. Moreover, Statement 141R requires changes in deferred tax asset valuation allowances and acquired income tax uncertainties that are recognized after the measurement period be recognized in income tax expense. Statement 141R is to be applied prospectively and is effective for fiscal years beginning on or after December 15, 2008, which for us will be our fiscal 2010.

Accounting for Noncontrolling Interests in Consolidated Financial Statements

On December 4, 2007, the FASB issued Statement of Financial Accounting Standards No. 160, “Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51” (“Statement 160”). Statement 160 requires that noncontrolling interests (previously referred to as minority interests) be clearly identified and presented as a component of equity, separate from the parent’s equity. Statement 160 also requires that the amount of consolidated net income attributable to the parent and to the noncontrolling interest be clearly identified and presented on the face of the consolidated statement of income; that changes in ownership interest be accounted for as equity transactions; and that when a subsidiary is deconsolidated, any retained noncontrolling equity investment in that subsidiary and the gain or loss on the deconsolidation of that subsidiary be measured at fair value. Statement 160 is to be applied prospectively, except for the presentation and disclosure requirements (which are to be applied retrospectively for all periods presented) and is effective for fiscal years beginning after December 15, 2008, which for us will be our fiscal 2010. We are currently evaluating the impact Statement 160 may have on our financial position, results of operations and cash flows.

Note C — Restatement of Previously Issued Financial Statements

As previously announced on July 30, 2008, Harris Stratex Networks, Inc. and its Audit Committee concluded that our consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 and for the first three quarters of the fiscal year ended June 27, 2008 would be restated for the correction of errors contained in those consolidated financial statements. The effect of these restatement items decreased shareholders’ equity cumulatively by \$13.2 million as of December 28, 2007 and \$11.6 million as of June 29, 2007. Previously reported net loss was increased by \$2.2 million and net income was decreased by \$1.3 million for the quarter ended December 28, 2007 and December 29, 2006, respectively, and net loss was increased by \$1.6 million and net income was decreased by \$0.6 million for the two quarters ended December 28, 2007 and December 29, 2006, respectively. The restatement had no impact on our net cash flows from operations, financing activities or investing activities. Details of the nature of the corrections are as follows:

Inventory

Project costs are accumulated in work in process inventory accounts in our cost accounting systems. As products are shipped or otherwise meet our revenue recognition criteria, these inventory accounts are relieved to cost of sales. Estimates may be required at the point of sale if certain costs have been incurred but not yet invoiced to us. On a routine and periodic basis, we review the work in process balances related to these projects to ensure all appropriate costs have been relieved to cost of sales in a timely manner and in the period to which they relate.

During fiscal 2008, we determined that this review had not been performed in a manner sufficient to identify significant project cost variances remaining in certain inventory accounts, and that the resulting errors impacted prior quarters and prior years. To correct this error, we decreased work in process inventory compared to amounts previously reported by \$12.2 million and \$9.6 million as of December 28, 2007 and June 29, 2007 respectively, and increased cost of sales and services by \$2.0 million and \$2.6 million and \$1.4 million and \$0.8 million for the quarter and two quarters ended December 28, 2007 and December 29, 2006, respectively.

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Inventory and Intercompany Account Reconciliations

During the course of the year-end close for the fiscal year-ending June 27, 2008, we determined that certain account reconciliation adjustments recorded in the fourth quarter of fiscal 2008, which related primarily to inventory and intercompany accounts receivable accounts, should have been recorded in prior quarters or prior years. During the fourth quarter of 2008, we determined that certain manual controls had not been performed for certain periods, resulting in accounting errors. More specifically, we identified errors in the work in process inventory balances resulting from incorrect account reconciliation processes. To correct this error, we decreased inventory compared to amounts previously reported by \$1.7 million and \$1.9 million as of December 28, 2007 and June 29, 2007, respectively, and increased cost of external product sales by \$1.7 million and \$0.2 million and \$0.1 million and \$0.2 million for the quarter and two quarters ended December 28, 2007 and December 29, 2006, respectively.

We also identified errors in accounts receivable balances as a result of controls deficiencies surrounding the recording and elimination of intercompany transactions. To correct this error, we decreased accounts receivable by \$2.4 million and \$2.2 million as of December 28, 2007 and June 29, 2007, respectively, and increased selling and administrative expenses by \$3.3 million and \$0.2 million for the quarter and two quarters ended December 28, 2007, respectively.

Warranty Liability

Our liability for product warranties contains the estimated accrual for certain technical assistance service provided under our standard warranty policy. We determined that these costs had not been properly included in the warranty liability estimates in the balance sheet of Stratex at the date of acquisition. To correct this error, we recorded an adjustment to increase the warranty liability and increase goodwill related to the Stratex acquisition by \$1.1 million at June 29, 2007.

Deferred Tax Liability

Taking into consideration the restatement adjustments described above, the Company reassessed its income tax provision in accordance with Statement 109. As a result, the Company recorded an adjustment to decrease the deferred tax liability balance by \$3.1 million and \$2.1 million as of December 28, 2007 and June 29, 2007, respectively, and to increase the income tax benefit by \$1.4 million and \$1.0 million for the quarter and two quarters ended December 28, 2007. For periods prior to January 26, 2007, income tax expense has been determined as if MCD had been a stand-alone entity, although the actual tax liabilities and tax consequences applied only to Harris. Our income tax expense for the periods relates to income taxes paid or to be paid in foreign jurisdictions for which net operating loss carryforwards were not available and domestic taxable income is deemed offset by tax loss carryforwards for which an income tax valuation allowance had been previously provided for in the financial statements. Thus, there was no change in our tax provision for the periods prior to fiscal 2007.

The following tables present the impact of the restatement adjustments on the Company's previously reported quarterly (unaudited) consolidated balance sheets as of December 28, 2007 and June 29, 2007, as well as the impact on our previously reported consolidated statements of operations for the quarter and two quarters ended December 28, 2007 and December 29, 2006. In addition, we have also presented the impact of the restatement adjustments on cash flows for the two quarters ended December 28, 2007 and December 29, 2006.

QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the quarter ended December 28, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 181.1	\$ —	\$ 181.1
Gross margin	49.3	(0.3)	49.0
Loss from operations	(0.8)	(3.6)	(4.4)
Net loss	\$ (1.0)	\$ (2.2)	\$ (3.2)
Basic and diluted net loss per common share	\$ (0.02)	\$ (0.03)	\$ (0.05)

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	For the quarter ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 101.2	\$ —	\$ 101.2
Gross margin	34.8	(1.3)	33.5
Income from operations	6.2	(1.3)	4.9
Net income	\$ 5.8	\$ (1.3)	\$ 4.5
Basic and diluted net loss per common share	N/A		N/A

	For the two quarters ended December 28, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 353.4	\$ —	\$ 353.4
Gross margin	98.4	(2.4)	96.0
Loss from operations	(1.8)	(2.6)	(4.4)
Net loss	\$ (1.8)	\$ (1.6)	\$ (3.4)
Basic and diluted net loss per common share	\$ (0.03)	\$ (0.03)	\$ (0.06)

	For the two quarters ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 194.8	\$ —	\$ 194.8
Gross margin	65.6	(0.6)	65.0
Income from operations	11.5	(0.6)	10.9
Net income	\$ 10.6	\$ (0.6)	\$ 10.0
Basic and diluted net loss per common share	NA		NA

N/A - Prior to January 26, 2007, the Company was a division of Harris Corporation and there were no shares outstanding for purposes of income or loss per share calculations.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	As of December 28, 2007		
	<u>As Previously Reported</u>	<u>Adjustments</u> (In millions)	<u>As Restated</u>
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 73.0	\$ —	\$ 73.0
Short-term investments and available for sale securities	10.0	—	10.0
Receivables	207.6	(2.4)	205.2
Unbilled costs	38.4	—	38.4
Inventories	130.0	(13.9)	116.1
Deferred income taxes	7.1	—	7.1
Other current assets	22.0	—	22.0
Total current assets	488.1	(16.3)	471.8
<i>Long-term Assets</i>			
Property, plant and equipment	78.2	—	78.2
Goodwill	314.6	1.1	315.7
Identifiable intangible assets	137.2	—	137.2
Other long-term assets	17.5	—	17.5
Total long-term assets	547.5	1.1	548.6
Total assets	<u>\$ 1,035.6</u>	<u>\$ (15.2)</u>	<u>\$ 1,020.4</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Current Liabilities</i>			
Short-term debt	\$ —	\$ —	\$ —
Current portion of long-term debt	7.6	—	7.6
Accounts payable	96.5	—	96.5
Compensation and benefits	7.4	—	7.4
Other accrued items	43.8	1.1	44.9
Advance payments and unearned income	27.9	—	27.9
Income taxes payable	4.0	—	4.0
Restructuring liabilities	9.8	—	9.8
Current portion of long-term capital lease obligation to Harris Corporation	2.5	—	2.5
Due to Harris Corporation	16.2	—	16.2
Total current liabilities	215.7	1.1	216.8
<i>Long-term liabilities</i>	51.4	(3.1)	48.3
Total liabilities	267.1	(2.0)	265.1
Total shareholders' equity	768.5	(13.2)	755.3
Total liabilities and shareholders' equity	<u>\$ 1,035.6</u>	<u>\$ (15.2)</u>	<u>\$ 1,020.4</u>

	As of June 29, 2007		
	<u>As Previously Reported</u>	<u>Adjustments (In millions)</u>	<u>As Restated</u>
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 69.2	\$ —	\$ 69.2
Short-term investments and available for sale securities	20.4	—	20.4
Receivables	185.3	(2.2)	183.1
Unbilled costs	36.9	—	36.9
Inventories	135.7	(11.5)	124.2
Deferred income taxes	4.1	—	4.1
Other current assets	21.7	—	21.7
Total current assets	<u>473.3</u>	<u>(13.7)</u>	<u>459.6</u>
<i>Long-term Assets</i>			
Property, plant and equipment	80.0	—	80.0
Goodwill	323.6	1.1	324.7
Identifiable intangible assets	144.5	—	144.5
Other long-term assets	16.7	—	16.7
Total long-term assets	<u>564.8</u>	<u>1.1</u>	<u>565.9</u>
Total assets	<u>\$ 1,038.1</u>	<u>\$ (12.6)</u>	<u>\$ 1,025.5</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Current Liabilities</i>			
Short-term debt	\$ 1.2	\$ —	\$ 1.2
Current portion of long-term debt	10.7	—	10.7
Accounts payable	84.7	—	84.7
Compensation and benefits	11.5	—	11.5
Other accrued items	44.7	1.1	45.8
Advance payments and unearned income	22.3	—	22.3
Income taxes payable	6.8	—	6.8
Restructuring liabilities	10.8	—	10.8
Current portion of long-term capital lease obligation to Harris Corporation	3.1	—	3.1
Due to Harris Corporation	17.2	—	17.2
Total current liabilities	<u>213.0</u>	<u>1.1</u>	<u>214.1</u>
<i>Long-term liabilities</i>	<u>67.1</u>	<u>(2.1)</u>	<u>65.0</u>
Total liabilities	<u>280.1</u>	<u>(1.0)</u>	<u>279.1</u>
Total shareholders' equity	<u>758.0</u>	<u>(11.6)</u>	<u>746.4</u>
Total liabilities and shareholders' equity	<u>\$ 1,038.1</u>	<u>\$ (12.6)</u>	<u>\$ 1,025.5</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Two Quarters Ended December 28, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Net loss	\$ (1.8)	\$ (1.6)	\$ (3.4)
Net cash provided by operating activities	12.1	—	12.1
Amortization of identifiable intangible assets acquired in the Stratex acquisition	7.2	—	7.2
Depreciation and amortization of property, plant and equipment and capitalized software	9.4	—	9.4
Non-cash stock-based compensation expense	3.6	—	3.6
Non-cash charges for restructuring and inventory write-downs	7.8	—	7.8
Increase in fair value of warrants	(0.8)	—	(0.8)
Deferred income tax expense	(3.5)	—	(3.5)
Changes in operating assets and liabilities:			
Receivables	(20.9)	0.2	(20.7)
Unbilled costs and inventories	0.6	2.4	3.0
Accounts payable and accrued expenses	7.1	—	7.1
Advance payments and unearned income	5.5	—	5.5
Due to Harris Corporation	0.5	—	0.5
Other	(2.6)	(1.0)	(3.6)
Net cash provided by investing activities	0.3	—	0.3
Net cash used in financing activities	(7.9)	—	(7.9)
Effect of exchange rate changes on cash and cash equivalents	(0.7)	—	(0.7)
Net increase in cash and cash equivalents	3.8	—	3.8
Cash and cash equivalents, beginning of year	\$ 69.2	—	\$ 69.2
Cash and cash equivalents, end of year	\$ 73.0	\$ —	\$ 73.0

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	For the Two Quarters Ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Net income	\$ 10.6	\$ (0.6)	\$ 10.0
Net cash provided by operating activities	(5.7)	—	(5.7)
Amortization of identifiable intangible assets acquired in the Stratex acquisition	—	—	—
Depreciation and amortization of property, plant and equipment and capitalized software	6.2	—	6.2
Non-cash stock-based compensation expense	—	—	—
Non-cash charges for restructuring and inventory write-downs	—	—	—
Increase in fair value of warrants	—	—	—
Deferred income tax expense	—	—	—
Changes in operating assets and liabilities:			
Receivables	15.4	—	15.4
Unbilled costs and inventories	(23.7)	0.6	(23.1)
Accounts payable and accrued expenses	(4.5)	—	(4.5)
Advance payments and unearned income	6.4	—	6.4
Due to Harris Corporation	(12.3)	—	(12.3)
Other	(3.8)	—	(3.8)
Net cash provided by investing activities	(5.0)	—	(5.0)
Net cash used in financing activities	8.4	—	8.4
Effect of exchange rate changes on cash and cash equivalents	0.7	—	0.7
Net increase in cash and cash equivalents	(1.6)	—	(1.6)
Cash and cash equivalents, beginning of year	\$ 13.8	—	\$ 13.8
Cash and cash equivalents, end of year	\$ 12.2	\$ —	\$ 12.2

Note D — Short-Term Investments and Available for Sale Securities

Short-term investments and available for sale securities as of December 28, 2007 consisted of the following:

	December 28, 2007			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
		(In millions)		
Corporate notes	\$ 8.8	\$ —	\$ —	\$ 8.8
Government notes	1.2	—	—	1.2
Total short-term investments and available for sale securities	<u>\$ 10.0</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 10.0</u>

Our short-term investments and available for sale securities have maturity dates of less than one year, with a weighted average maturity of 58 days.

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Note E — Accumulated Other Comprehensive Income (Loss) and Comprehensive Income (Restated)

The changes in components of our accumulated other comprehensive income (loss) during the two quarters ended December 28, 2007 and December 29, 2006 were as follows:

	<u>Foreign Currency Translation</u>	<u>Hedging Derivatives</u>	<u>Short-Term Investments and Available for Sale Securities</u>	<u>Total Accumulated Other Comprehensive Income (Loss)</u>
	(In millions)			
Balance at June 29, 2007	\$ —	\$ —	\$ —	\$ —
Foreign currency translation	5.8	—	—	5.8
Balance at December 28, 2007	<u>\$ 5.8</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 5.8</u>
Balance at June 30, 2006	\$ (1.5)	\$ 0.1	\$ —	\$ (1.4)
Foreign currency translation	(3.4)	—	—	(3.4)
Balance at December 29, 2006	<u>\$ (4.9)</u>	<u>\$ 0.1</u>	<u>\$ —</u>	<u>\$ (4.8)</u>

Total comprehensive income (loss) for the quarters ended December 28, 2007 and December 29, 2006 was comprised of the following:

	<u>Quarter Ended</u>		<u>Two Quarters Ended</u>	
	<u>December 28, 2007 (Restated)</u>	<u>December 29, 2006 (Restated)</u>	<u>December 28, 2007 (Restated)</u>	<u>December 29, 2006 (Restated)</u>
	(In millions)			
Net (loss) income	\$ (3.2)	\$ 4.5	\$ (3.4)	\$ 10.0
Other comprehensive (loss) income:				
Foreign currency translation	3.1	(3.7)	5.8	(3.4)
Net unrealized gain (loss) on hedging activities	(0.3)	—	—	—
Total comprehensive income	<u>\$ (0.4)</u>	<u>\$ 0.8</u>	<u>\$ 2.4</u>	<u>\$ 6.6</u>

Note F — Receivables (Restated)

Our receivables are summarized below:

	<u>December 28, 2007 (Restated)</u>	<u>June 29, 2007 (Restated)</u>
	(In millions)	
Accounts receivable	\$ 210.1	\$ 188.3
Notes receivable due within one year — net	3.6	3.3
	<u>213.7</u>	<u>191.6</u>
Less allowances for collection losses	(8.5)	(8.5)
	<u>\$ 205.2</u>	<u>\$ 183.1</u>

[Table of Contents](#)**Note G — Inventories (Restated)**

Our inventories are summarized below:

	December 28, 2007 (Restated)	June 29, 2007 (Restated)
	(In millions)	
Finished products	\$ 54.7	\$ 52.9
Work in process	23.4	17.1
Raw materials and supplies	59.6	68.4
	<u>137.7</u>	<u>138.4</u>
Inventory reserves	(21.6)	(14.2)
	<u>\$ 116.1</u>	<u>\$ 124.2</u>

During the quarter ended December 28, 2007, we recorded a total of \$3.7 million for inventory markdowns which are classified in “Cost of product sales” on the Statement of Operations during the quarter ended December 28, 2007 in accordance with the guidance in Emerging Issues Task Force (“EITF”) Abstracts Issues No. 96-9 “Classification of Inventory Markdowns and Other Costs Associated with a Restructuring.” These markdowns were part of our 2007 restructuring plan (see Note L).

Our 2007 restructuring plan included product strategies resulting in the product discontinuance of the Company’s MegaStar product line during the second quarter of fiscal 2008. For international markets, the TruePoint 6500 product replaced MegaStar. MegaStar was produced at the Company’s facility in San Antonio, Texas. Accordingly, during the quarter ended December 28, 2007, the Company recorded a \$1.5 million charge for MegaStar inventory markdowns.

During the second quarter of fiscal 2008, these restructuring activities also resulted in scaled down operations and reduced activity in Canada, Brazil and China. As a result, we recorded inventory markdowns of \$0.4 million, \$1.0 million and \$0.8 million in Canada, Brazil and China, respectively, during the quarter ended December 28, 2007.

Note H — Property, Plant and Equipment

Our property, plant and equipment are summarized below:

	December 28, 2007	June 29, 2007
	(In millions)	
Land	\$ 1.3	\$ 1.3
Buildings	28.5	30.8
Software developed for internal use	8.2	3.0
Machinery and equipment	122.3	123.3
	<u>160.3</u>	<u>158.4</u>
Less allowances for depreciation and amortization	(82.1)	(78.4)
	<u>\$ 78.2</u>	<u>\$ 80.0</u>

Depreciation and amortization expense related to plant and equipment, including software amortization, was \$3.4 million and \$1.5 million during the quarters ended December 28, 2007 and December 29, 2006, and \$8.0 million and \$3.0 million in the two quarters ended December 28, 2007 and December 29, 2006.

[Table of Contents](#)**Note I — Credit Facility and Debt**

Our debt consisted of the following at December 28, 2007 and June 29, 2007:

	<u>December 28, 2007</u>	<u>June 29, 2007</u>
	(In millions)	
Credit Facility with Bank:		
Term Loan A	\$ 2.6	\$ 5.7
Term Loan B	11.3	13.8
Other short-term notes	—	1.2
Total	<u>13.9</u>	<u>20.7</u>
Less other short-term notes	—	(1.2)
Less current portion	(7.6)	(10.7)
Long-term debt	<u>\$ 6.3</u>	<u>\$ 8.8</u>

As part of the Stratex acquisition, we assumed the existing credit facility of Stratex with a commercial bank (the “Credit Facility”). The Credit Facility allows for revolving credit borrowings of up to \$50 million with available credit defined as \$50 million less the outstanding balance of our term loans (\$13.9 million as of December 28, 2007) and any usage under the revolving credit portion which includes our outstanding standby letters of credit (\$8.2 million as of December 28, 2007). The Credit Facility is unsecured. The fair value of our debt approximates book values as of December 28, 2007.

Term Loan A of the Credit Facility requires monthly principal payments of \$0.5 million plus interest at a fixed rate of 6.38% through May 2008. Term Loan B requires monthly principal payments of \$0.4 million plus interest at a fixed rate of 7.25% through March 2010.

The credit facility agreement contains a minimum tangible net worth covenant and a liquidity ratio covenant. As of December 28, 2007 we were in compliance with these financial covenants.

As of December 28, 2007, our future principal payment obligations on long-term debt under the Credit Facility were as follows:

	<u>Years Ending in June</u>
	(In millions)
2008	\$ 5.1
2009	5.0
2010	3.8
Total	<u>\$ 13.9</u>

We have other uncommitted short-term lines of credit aggregating \$0.4 million from various international banks available on December 28, 2007. These lines provide for borrowings at various interest rates, typically may be terminated upon notice, may be used on such terms as mutually agreed to by the banks and us and are reviewed annually for renewal or modification.

Note J — Accrued Warranties (Restated)

We have accrued for the estimated cost to repair or replace products under warranty at the time of sale. Changes in warranty liability, which is included as a component of “Other accrued items” on the condensed consolidated balance sheets, during the two quarters ended December 28, 2007 and December 29, 2006 were as follows:

	<u>Two Quarters Ended</u>	
	<u>December 28, 2007</u>	<u>December 29, 2006</u>
	(Restated)	(Restated)
	(In millions)	
Balance as of the beginning of the year	\$ 6.7	\$ 3.9
Warranty provision for revenue recorded during the period	3.7	0.7
Settlements made during the period	(3.9)	(1.2)
Other adjustments to liability, including foreign currency translation during the period	0.1	0.1
Balance as of the end of the period	<u>\$ 6.6</u>	<u>\$ 3.5</u>

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Note K — Warrants

As part of the Stratex acquisition, we assumed warrants to purchase shares of our Class A common stock. As of December 28, 2007, warrants to purchase 520,445 shares of our Class A common stock were outstanding. These warrants have an exercise price of \$11.80 per common share and will expire on September 24, 2009. The per share fair value of each warrant was \$6.03 and \$7.43 on December 28, 2007 and June 29, 2007, determined based on the Black-Scholes-Merton model with the assumptions listed in the table below.

	December 28, 2007	June 29, 2007
Dividend yield	0.0%	0.0%
Expected volatility	45.3%	43.1%
Risk-free interest rate	3.29%	4.91%
Expected holding period	0.92 year	1.25 years

As a result of recording these outstanding warrants at fair value at December 28, 2007, we recorded the change in fair value during the quarter and two quarters ended December 28, 2007 of \$0.3 million and \$0.8 million as decreases to selling and administrative expenses on our condensed consolidated statements of operations. During the two quarters ended December 28, 2007, there were no warrants exercised.

Note L — Restructuring Activities

During the two quarters ended December 28, 2007, Harris Stratex Networks, Inc. (the “Company”) continued its restructuring activities implemented within the merger restructuring plans approved in connection with the January 26, 2007 merger between the Microwave Communications Division of Harris Corporation and Stratex Networks, Inc. These restructuring plans included the consolidation of facilities and operations of the predecessor entities in Canada, France, the U.S., China, Brazil and, to a lesser extent, Mexico, New Zealand and the United Kingdom.

In the second quarter of fiscal 2008, we recorded an additional \$4.4 million of restructuring charges in connection with implementation of these fiscal 2007 plans. The cost of these plans as they related to reductions in force during the second quarter of fiscal 2008 consisted of retention, severance and other benefits totaling \$0.9 million. We also recorded \$1.1 million in restructuring charges relating to the impairment of a lease and \$0.1 million relating to the write-off of fixed assets. These restructuring activities also resulted in scaled down operations and reduced activity in Brazil. This reduced activity in Brazil negatively affected the fair value of a recoverable value-added type tax (“ICMS”) included in “Other current assets” on the Company’s balance sheet. We recorded an impairment of \$2.3 million in restructuring charges during the quarter ended December 28, 2007 relating to the reduction in fair value of ICMS tax recoverable in Brazil.

In the first two quarters of fiscal 2008, we recorded an additional \$8.4 million of restructuring charges in connection with implementation of these fiscal 2007 plans. The cost of these plans as they relate to the reductions in force during the first two quarters of fiscal 2007 consisted primarily of retention, severance and other benefits totaling \$3.4 million. We also recorded \$1.4 million in restructuring charges related to the impairment of a lease and \$1.9 million relating to the write-off of fixed assets and leasehold improvements. These restructuring activities also resulted in scaled down operations and reduced activity in Brazil. This reduced activity in Brazil negatively affected the fair value of a recoverable value-added type tax (“ICMS”) included in “Other current assets” on the Company’s balance sheet. We recorded an impairment of \$2.3 million in restructuring charges during the quarter ended December 28, 2007 relating to the reduction in fair value of ICMS tax recoverable in Brazil. These charges to restructuring in the first two quarters of fiscal 2008 were partially offset by \$0.3 million for the reduction in severance estimated to be paid in France and a \$0.3 million reduction in the amount estimated to close out our restructuring liability in connection with our fiscal year 2006 restructuring plan to transfer our Montreal manufacturing activities to our San Antonio, Texas facility.

In the third quarter of fiscal 2007, in connection with the Stratex acquisition on January 26, 2007, we recognized \$12.0 million of restructuring liabilities representing the fair value of Stratex restructuring liabilities incurred prior to, and not related to, the acquisition as summarized in the table below. Those charges related to building lease obligations at four of Stratex’s U.S. facilities.

In the two quarters ended December 28, 2007, we made payments of \$1.4 million on these leases, which reduced the liability by \$1.0 million, net of \$0.4 million in interest expense. Also during the two quarters ended December 28, 2007, new information became available with regard to our utilization of the space under these building lease obligations and we reduced our restructuring liability by \$1.1 million with an offsetting decrease to goodwill under purchase accounting.

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The information in the following table summarizes our restructuring activity during the quarter ended December 28, 2007 and the remaining restructuring liability as of December 28, 2007.

	Severance and Benefits	Facilities and Other (In millions)	Total
Restructuring liability at June 29, 2007	\$ 7.8	\$ 10.8	\$ 18.6
Provision in the two quarters ended December 28, 2007	3.4	5.6	9.0
Release of accrual to statement of operations in the two quarters ended December 28, 2007	(0.6)	—	(0.6)
Amount credited to goodwill in the two quarters ended December 28, 2007	—	(1.1)	(1.1)
Other adjustments to liability, including foreign currency translation during the period	0.6	—	0.6
Non-cash charges in the two quarters ended December 28, 2007	—	(4.1)	(4.1)
Cash payments in the two quarters ended December 28, 2007	(5.0)	(1.6)	(6.6)
Restructuring liability at December 28, 2007	<u>\$ 6.2</u>	<u>\$ 9.6</u>	<u>\$ 15.8</u>
Current portion of restructuring liability at December 28, 2007	\$ 6.2	\$ 3.6	9.8
Long-term portion of restructuring liability at December 28, 2007	—	6.0	6.0
Total restructuring liability at December 28, 2007	<u>\$ 6.2</u>	<u>\$ 9.6</u>	<u>\$ 15.8</u>

Our fiscal year 2007 restructuring plans were expected to be fully implemented by March 28, 2008. The following table summarizes our costs incurred through December 28, 2007 and costs expected to be incurred for our fiscal 2007 restructuring plans:

	Total Costs Incurred through June 29, 2007	Total Costs Incurred During the Two Quarters Ended December 28, 2007	Cumulative Costs Incurred through December 28, 2007 (In millions)	Estimated Additional Costs to be Incurred	Total Restructuring Costs Expected to be Incurred
North America Microwave:					
Severance and benefits	\$ 5.1	\$ 2.8	\$ 7.9	\$ 0.6	\$ 8.5
Facilities and other	—	3.2	3.2	—	3.2
Total North America Microwave	<u>\$ 5.1</u>	<u>\$ 6.0</u>	<u>\$ 11.1</u>	<u>\$ 0.6</u>	<u>\$ 11.7</u>
International Microwave:					
Severance and benefits	\$ 4.2	\$ 0.1	\$ 4.3	\$ —	\$ 4.3
Facilities and other	—	2.3	2.3	—	2.3
Total International Microwave	<u>\$ 4.2</u>	<u>\$ 2.4</u>	<u>\$ 6.6</u>	<u>\$ —</u>	<u>\$ 6.6</u>
Totals	<u>\$ 9.3</u>	<u>\$ 8.4</u>	<u>\$ 17.7</u>	<u>\$ 0.6</u>	<u>\$ 18.3</u>

Note M — Share-Based Compensation

Compensation expense for share-based awards was \$1.9 million and \$0.3 million for the quarters ended December 28, 2007 and December 29, 2006. Compensation expense for share-based awards was \$4.3 million and \$0.7 million for the two quarters ended December 28, 2007 and December 29, 2006. Amounts were included in our consolidated statements of operations as follows:

	Quarter Ended		Two Quarters Ended	
	December 28, 2007	December 29, 2006	December 28, 2007	December 29, 2006
	(In millions)			
Cost of product sales and services	\$ 0.5	\$ —	\$ 0.7	\$ —
Research and development expenses	0.2	—	0.7	—
Selling and administrative expenses	1.2	0.3	2.9	0.7
Total compensation expense	<u>\$ 1.9</u>	<u>\$ 0.3</u>	<u>\$ 4.3</u>	<u>\$ 0.7</u>

Grants to employees under our 2007 Stock Equity Plan during the quarter and two quarters ended December 28, 2007 consisted of 12,470 stock option grants and 5,680 performance share awards. The fair value of each option grant was estimated on the date of grant using the Black-Scholes-Merton option—pricing model which used the following assumptions: expected volatility of 55.58%; expected dividend yield of 0.0%; and expected life in years of 5.875.

Upon the exercise of stock options, we issued 8,120 and 85,365 shares during the quarter and two quarters ended December 28, 2007.

Note N — Business Segments (Restated)

We are organized into three operating segments around the markets we serve: North America Microwave, International Microwave and Network Operations. The North America Microwave segment designs, manufactures, sells and services microwave radio products, primarily for cellular network providers and private network users within North America (U.S. and Canada). The International Microwave segment designs, manufactures, sells and services microwave radio products, primarily for cellular network providers and private network users outside of North America. The Network Operations segment develops, designs, produces, sells and services network management software systems, primarily for cellular network providers and private network users.

During the quarter and two quarters in the period ended December 28, 2007, we had one customer in Africa (Mobile Telephone Networks or MTN) that accounted for 12% of our total revenue.

Revenue and (loss) income before income taxes by segment are as follows:

	Quarter Ended		Two Quarters Ended	
	December 28, 2007 (Restated)	December 29, 2006 (Restated)	December 28, 2007 (Restated)	December 29, 2006 (Restated)
	(In millions)			
Revenue				
North America Microwave	\$ 63.8	\$ 58.7	\$ 120.4	\$ 108.6
International Microwave	110.8	37.5	220.0	76.7
Network Operations	6.5	5.0	13.0	9.5
Total Revenue	\$ 181.1	\$ 101.2	\$ 353.4	\$ 194.8
(Loss) Income Before Income Taxes				
Segment Operating (Loss) Income:				
North America Microwave (1)	\$ (1.3)	\$ 5.4	\$ (1.6)	\$ 9.1
International Microwave (2)	(3.7)	1.2	(4.2)	4.8
Network Operations	0.6	0.1	1.4	0.4
Corporate allocations expense from Harris	—	(1.8)	—	(3.4)
Net interest expense	(0.4)	(0.1)	(0.4)	(0.2)
(Loss) income before provision for income taxes	\$ (4.8)	\$ 4.8	\$ (4.8)	\$ 10.7

- (1) During the quarter and two quarters ended December 28, 2007, we recorded \$0.7 million and \$1.3 million in amortization of developed technology, tradenames, customer relationships, and non-compete agreements, \$0.3 million and \$0.5 million in amortization of the step-up in the fair value of fixed assets related to the acquisition of Stratex, \$4.3 million and \$8.1 million in restructuring charges, \$1.1 million and \$2.1 million in merger-related integration charges, \$0.1 million and \$0.9 million in charges for impairment of a lease agreement and \$1.8 million and \$4.1 million in FAS 123R share-based compensation in our North America Microwave segment. Additionally, we recorded \$1.9 million for inventory markdowns during the quarter ended December 28, 2007.
- (2) During the quarter and two quarters ended December 28, 2007, we recorded \$2.9 million and \$5.9 million in amortization of developed technology, tradenames, customer relationships, and non-compete agreements, \$0.4 million and \$0.9 million in amortization of the step-up in the fair value of fixed assets related to the acquisition of Stratex, \$0.1 million and \$0.3 million in restructuring charges, \$2.1 million and \$3.9 million in merger related integration charges and \$0.1 million and \$0.2 million in FAS 123R share-based compensation in our International Microwave segment. Additionally, we recorded \$1.8 million for inventory markdowns during the quarter ended December 28, 2007.

Note O — Income Taxes (Restated)

The income tax benefit for the first two quarters of fiscal 2008 reflects our pre-tax loss and was based on our estimated fiscal 2008 annual effective tax rate. The income tax benefit on the pre-tax loss for the quarter and two quarters ended December 28, 2007 was \$1.6 million and \$1.4 million. The variation between income taxes and income tax expense at the U.S. statutory rate of 35% is primarily due to the consolidation of our foreign operations, which are subject to income taxes at lower statutory rates.

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The income tax provision on pre-tax income for the quarter and two quarters ended December 29, 2006 was \$0.3 million and \$0.7 million based upon an allocation of tax expense from Harris Corporation.

We adopted the provisions of FIN 48 on June 30, 2007. FIN 48 prescribes a comprehensive model for financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. As a result of adopting FIN 48, we recorded a decrease in retained earnings of less than \$0.1 million and a corresponding increase to tax liabilities.

As of December 28, 2007 and June 30, 2007, we had a liability for unrecognized tax benefits of \$28.4 million and \$28.1 million for various federal, foreign, and state income tax matters. The adoption of FIN 48 resulted in a reclassification of deferred tax asset items which included a full valuation allowance, as well as goodwill for appropriate balance sheet presentation. If the unrecognized tax benefits associated with these positions are recognized ultimately, they would not have a material impact on our effective tax rate or our financial position.

We account for interest and penalties related to unrecognized tax benefits as part of our provision for federal, foreign, and state income tax expense. We accrued an additional amount for such interest of less than \$0.1 million in the quarter and two quarters ended December 28, 2007. No penalties have been accrued. We accrued less than \$0.1 million at June 30, 2007 for the payment of any such interest.

We expect that the amount of unrecognized tax benefit may change in the next twelve months; however, it is not expected to have a significant impact on our results of operations, financial position or cash flows.

We have a number of years with open tax audits which vary from jurisdiction to jurisdiction. Our major tax jurisdictions include the U.S., Nigeria, Singapore, New Zealand, Poland, South Africa, France, and the UK. The earliest years still open and subject to ongoing audits as of the date of adoption of FIN 48 for these jurisdictions are as follows: (i) United States (Federal/State)—2003/2002; (ii) Nigeria—2003; (iii) Singapore—2000; (iv) New Zealand—2003; (v) Poland—2003; (vi) South Africa—2001; (vii) France—2005; and (viii) UK—2006.

Note P — Related Party Transactions with Harris

Prior to the Stratex acquisition, Harris provided information services, human resources, financial shared services, facilities, legal support and supply chain management services to us. The charges for those services were billed to us primarily based on actual usage. During the quarter and two quarters ended December 29, 2006, Harris charged us \$1.5 million and \$3.1 million for those services.

On January 26, 2007, we entered into a Transition Services Agreement with Harris to provide for certain services during the periods subsequent to the Stratex acquisition. These services also are charged to us based primarily on actual usage and include database management, supply chain operating systems, eBusiness services, sales and service, financial systems, back office material resource planning support, HR systems, internal and information systems shared services support, network management and help desk support, and server administration and support. During the quarter and two quarters ended December 28, 2007, Harris charged us \$1.7 million and \$3.4 million for these services.

We have sales to, and purchases from, other Harris entities from time to time. Prior to January 26, 2007, the entity initiating the transaction sold to the other Harris entity at cost or transfer price, depending on jurisdiction. The entity making the sale to the end customer recorded the profit on the transaction above cost or transfer price, depending on jurisdiction. Subsequent to January 26, 2007, these purchases and sales are recorded at market price. Our sales to other Harris entities were \$3.7 million and \$0.9 million for the quarters ended December 28, 2007 and December 29, 2006 and \$4.9 million and \$1.4 million for the two quarters ended December 28, 2007 and December 29, 2006. We also recognized costs associated with related party purchases from Harris of \$4.0 million and \$0.1 million for the quarters ended December 28, 2007 and December 29, 2006 and \$4.6 million, and \$2.7 million for the two quarters ended December 28, 2007 and December 29, 2006.

Harris was the primary source of our financing and equity activities through January 26, 2007, the date of the Stratex acquisition. During the two quarters ended December 29, 2006, Harris' net investment in us increased by \$8.5 million.

Additionally, through the date of the Stratex acquisition, Harris loaned cash to us to fund our international entities, and we distributed excess cash back to Harris. This arrangement ended on January 26, 2007. We recognized interest income and expense on these loans. The amount of interest income and expense for the quarter and two quarters ended December 29, 2006 was not significant.

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The unpaid amounts billed from Harris are included within “Due to Harris Corporation” on the condensed consolidated balance sheets. Additionally, we have other receivables and payables in the normal course of business with Harris. These amounts are netted within “Due to Harris Corporation” on the condensed consolidated balance sheets. Total receivables from Harris were \$1.8 million and \$0.7 million at December 28, 2007 and June 29, 2007. Total payables to Harris were \$18.0 million and \$17.9 million at December 28, 2007 and June 29, 2007.

Prior to January 26, 2007, MCD used certain assets in Canada owned by Harris that were not contributed to us as part of the Combination Agreement. We continue to use these assets in our business and, on January 26, 2007, we entered into a five-year lease agreement with Harris for these assets. This agreement is a capital lease under U.S. generally accepted accounting principles with an initial lease obligation balance of \$5.9 million and the related asset amount included in property, plant and equipment on our balance sheet.

During the first quarter of fiscal 2008, we recognized an impairment charge of \$1.3 million on a portion of these assets which is included in our restructuring charges. We also recognized an increase of \$0.4 million to the lease obligation balance during the quarter ended December 28, 2007 from a recapitalization under the lease terms, primarily because of the impairment charge discussed above and a rescheduling of the lease payments. Quarterly lease payments are due to Harris based on the amount of 103% of Harris’ annual depreciation calculated in accordance with U.S. generally accepted accounting principles. Our depreciation expense on this capital lease was \$0.5 million and \$0.9 million during the quarter and two quarters ended December 28, 2007.

During the first quarter of fiscal 2008, we paid Harris \$2.0 million under this capital lease obligation resulting from the \$1.3 million impairment discussed above and the principal payments. As of December 28, 2007, our total capital lease obligation to Harris was \$4.3 million.

Note Q — Legal Proceedings

On February 8, 2007, a court order was entered against Stratex do Brasil, a subsidiary of Harris Stratex Networks Operating Company, in Brazil, to enforce performance of an alleged agreement between the former Stratex Networks, Inc. entity and a supplier. We have not determined what, if any, liability this may result in, as the court did not award any damages. We have appealed the decision to enforce the alleged agreement, and do not expect this litigation to have a material adverse effect on our business, operating results or financial condition.

From time to time, we may be involved in various legal claims and litigation that arise in the normal course of our operations. While the results of such claims and litigation cannot be predicted with certainty, we currently believe that we are not a party to any litigation the final outcome of which is likely to have a material adverse effect on our financial position, results of operations or cash flows. However, should we not prevail in any such litigation; it could have a materially adverse impact on our operating results, cash flows or financial position.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Harris Stratex Networks, Inc.

We have reviewed the condensed consolidated balance sheet of Harris Stratex Networks, Inc. and subsidiaries as of December 28, 2007, the related condensed consolidated statements of operations for the quarter and two quarters ended December 28, 2007 and December 29, 2006, and the condensed consolidated statements of cash flows for the two quarters ended December 28, 2007 and December 29, 2006. These financial statements are the responsibility of the Company's management.

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

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

As described in Note C to the condensed consolidated financial statements, the financial statements referred to above have been restated.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Harris Stratex Networks, Inc. and subsidiaries as of June 29, 2007, and the related consolidated statements of operations and cash flows for the year then ended, not presented herein, and in our report dated August 16, 2007 (except for Note D as to which the date is September 12, 2008), we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of June 29, 2007, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived. As described in Note D to the consolidated financial statements, these financial statements have been restated.

/s/ Ernst & Young LLP

Raleigh, North Carolina
February 1, 2008, except for Note C,
as to which the date is September 12, 2008

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (Restated).

This report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which include, without limitation, statements about the market for our technology, our strategy and competition. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed forward-looking statements. For example, the words “believes”, “anticipates”, “plans”, “expects”, “intends” and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed below under the discussions of “Risk Factors” set forth in our annual report on Form 10-K filed with the Securities and Exchange Commission on August 27, 2007. All forward looking statements in this document are based on information available to us as of the date hereof and we assume no obligation to update any such forward-looking statements.

Restatement of Previously Issued Financial Statements

As previously announced on July 30, 2008, Harris Stratex Networks, Inc. and its Audit Committee concluded that our consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 and for the first three quarters of the fiscal year ended June 27, 2008 would be restated for the correction of errors contained in those consolidated financial statements. The effect of these restatement items decreased shareholders’ equity cumulatively by \$13.2 million as of December 28, 2007 and \$11.6 million as of June 29, 2007. Previously reported net loss was increased by \$2.2 million and net income was decreased by \$1.3 million for the quarter ended December 28, 2007 and December 29, 2006, respectively, and net loss was increased by \$1.6 million and net income was decreased by \$0.6 million for the two quarters ended December 28, 2007 and December 29, 2006, respectively. The restatement had no impact on our net cash flows from operations, financing activities or investing activities. Details of the nature of the corrections are as follows:

Inventory

Project costs are accumulated in work in process inventory accounts in our cost accounting systems. As products are shipped or otherwise meet our revenue recognition criteria, these inventory accounts are relieved to cost of sales. Estimates may be required at the point of sale if certain costs have been incurred but not yet invoiced to us. On a routine and periodic basis, we review the work in process balances related to these projects to ensure all appropriate costs have been relieved to cost of sales in a timely manner and in the period to which they relate.

During fiscal 2008, we determined that this review had not been performed in a manner sufficient to identify significant project cost variances remaining in certain inventory accounts, and that the resulting errors impacted prior quarters and prior years. To correct this error, we decreased work in process inventory compared to amounts previously reported by \$12.2 million and \$9.6 million as of December 28, 2007 and June 29, 2007 respectively, and increased cost of sales and services by \$2.0 million and \$2.6 million and \$1.4 million and \$0.8 million for quarter and two quarters ended December 28, 2007 and December 29, 2006, respectively.

Inventory and Intercompany Account Reconciliations

During the course of the year-end close for the fiscal year-ending June 27, 2008, we determined that certain account reconciliation adjustments recorded in the fourth quarter of fiscal 2008, which related primarily to inventory and intercompany accounts receivable accounts, should have been recorded in prior quarters or prior years. During the fourth quarter of 2008, we determined that certain manual controls had not been performed for certain periods, resulting in accounting errors. More specifically, we identified errors in the work in process inventory balances resulting from incorrect account reconciliation processes. To correct this error, we decreased inventory compared to amounts previously reported by \$1.7 million and \$1.9 million as of December 28, 2007 and June 29, 2007, respectively, and increased cost of external product sales by \$1.7 million and \$0.2 million and \$0.1 million and \$0.2 million for the quarter and two quarters ended December 28, 2007 and December 29, 2006, respectively.

We also identified errors in accounts receivable balances as a result of controls deficiencies surrounding the recording and elimination of intercompany transactions. To correct this error, we decreased accounts receivable by \$2.4 million and \$2.2 million as of December 28, 2007 and June 29, 2007, respectively, and increased selling and administrative expenses by \$3.3 million and \$0.2 million for the quarter and two quarters ended December 28, 2007, respectively.

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Warranty Liability

Our liability for product warranties contains the estimated accrual for certain technical assistance service provided under our standard warranty policy. We determined that these costs had not been properly included in the warranty liability estimates in the balance sheet of Stratex at the date of acquisition. To correct this error, we recorded an adjustment to increase the warranty liability and increase goodwill related to the Stratex acquisition by \$1.1 million at June 29, 2007.

Deferred Tax Liability

Taking into consideration the restatement adjustments described above, the Company reassessed its income tax provision in accordance with Statement 109. As a result, the Company recorded an adjustment to decrease the deferred tax liability balance by \$3.1 million and \$2.1 million as of December 28, 2007 and June 29, 2007, respectively, and to increase the income tax benefit by \$1.4 million and \$1.0 million for the quarter and two quarters ended December 28, 2007. For periods prior to January 26, 2007, income tax expense has been determined as if MCD had been a stand-alone entity, although the actual tax liabilities and tax consequences applied only to Harris. Our income tax expense for those periods relates to income taxes paid or to be paid in foreign jurisdictions for which net operating loss carryforwards were not available and domestic taxable income is deemed offset by tax loss carryforwards for which an income tax valuation allowance had been previously provided for in the financial statements. Thus, there was no change in our tax position for periods prior to fiscal 2007.

The following tables present the impact of the restatement adjustments on the Company's previously reported quarterly (unaudited) consolidated balance sheets as of December 28, 2007 and June 29, 2007, as well as the impact on our previously reported consolidated statements of operations for the quarter and two quarters ended December 28, 2007 and December 29, 2006. In addition, we have also presented the impact of the restatement adjustments on cash flows for the two quarters ended December 28, 2007 and December 29, 2006.

QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the quarter ended December 28, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 181.1	\$ —	\$ 181.1
Gross margin	49.3	(0.3)	49.0
Loss from operations	(0.8)	(3.6)	(4.4)
Net loss	\$ (1.0)	\$ (2.2)	\$ (3.2)
Basic and diluted net loss per common share	\$ (0.02)	\$ (0.03)	\$ (0.05)

	For the quarter ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 101.2	\$ —	\$ 101.2
Gross margin	34.8	(1.3)	33.5
Income from operations	6.2	(1.3)	4.9
Net income	\$ 5.8	\$ (1.3)	\$ 4.5
Basic and diluted net loss per common share	N/A		N/A

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	For the two quarters ended December 28, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 353.4	\$ —	\$ 353.4
Gross margin	98.4	(2.4)	96.0
Loss from operations	(1.8)	(2.6)	(4.4)
Net loss	\$ (1.8)	\$ (1.6)	\$ (3.4)
Basic and diluted net loss per common share	\$ (0.03)	\$ (0.03)	\$ (0.06)

	For the two quarters ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	\$ 194.8	\$ —	\$ 194.8
Gross margin	65.6	(0.6)	65.0
Income from operations	11.5	(0.6)	10.9
Net income	\$ 10.6	\$ (0.6)	\$ 10.0
Basic and diluted net loss per common share	NA		NA

N/A - Prior to January 26, 2007, the Company was a division of Harris Corporation and there were no shares outstanding for purposes of income or loss per share calculations.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	As of December 28, 2007		
	<u>As Previously Reported</u>	<u>Adjustments (In millions)</u>	<u>As Restated</u>
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 73.0	\$ —	\$ 73.0
Short-term investments and available for sale securities	10.0	—	10.0
Receivables	207.6	(2.4)	205.2
Unbilled costs	38.4	—	38.4
Inventories	130.0	(13.9)	116.1
Deferred income taxes	7.1	—	7.1
Other current assets	22.0	—	22.0
Total current assets	<u>488.1</u>	<u>(16.3)</u>	<u>471.8</u>
<i>Long-term Assets</i>			
Property, plant and equipment	78.2	—	78.2
Goodwill	314.6	1.1	315.7
Identifiable intangible assets	137.2	—	137.2
Other long-term assets	17.5	—	17.5
Total long-term assets	<u>547.5</u>	<u>1.1</u>	<u>548.6</u>
Total assets	<u>\$ 1,035.6</u>	<u>\$ (15.2)</u>	<u>\$ 1,020.4</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Current Liabilities</i>			
Short-term debt	\$ —	\$ —	\$ —
Current portion of long-term debt	7.6	—	7.6
Accounts payable	96.5	—	96.5
Compensation and benefits	7.4	—	7.4
Other accrued items	43.8	1.1	44.9
Advance payments and unearned income	27.9	—	27.9
Income taxes payable	4.0	—	4.0
Restructuring liabilities	9.8	—	9.8
Current portion of long-term capital lease obligation to Harris Corporation	2.5	—	2.5
Due to Harris Corporation	16.2	—	16.2
Total current liabilities	<u>215.7</u>	<u>1.1</u>	<u>216.8</u>
<i>Long-term liabilities</i>	<u>51.4</u>	<u>(3.1)</u>	<u>48.3</u>
Total liabilities	267.1	(2.0)	265.1
Total shareholders' equity	768.5	(13.2)	755.3
Total liabilities and shareholders' equity	<u>\$ 1,035.6</u>	<u>\$ (15.2)</u>	<u>\$ 1,020.4</u>

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	<u>As of June 29, 2007</u>		
	<u>As Previously Reported</u>	<u>Adjustments (In millions)</u>	<u>As Restated</u>
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 69.2	\$ —	\$ 69.2
Short-term investments and available for sale securities	20.4	—	20.4
Receivables	185.3	(2.2)	183.1
Unbilled costs	36.9	—	36.9
Inventories	135.7	(11.5)	124.2
Deferred income taxes	4.1	—	4.1
Other current assets	21.7	—	21.7
Total current assets	<u>473.3</u>	<u>(13.7)</u>	<u>459.6</u>
<i>Long-term Assets</i>			
Property, plant and equipment	80.0	—	80.0
Goodwill	323.6	1.1	324.7
Identifiable intangible assets	144.5	—	144.5
Other long-term assets	16.7	—	16.7
	<u>564.8</u>	<u>1.1</u>	<u>565.9</u>
Total assets	<u>\$ 1,038.1</u>	<u>\$ (12.6)</u>	<u>\$ 1,025.5</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
<i>Current Liabilities</i>			
Short-term debt	\$ 1.2	\$ —	\$ 1.2
Current portion of long-term debt	10.7	—	10.7
Accounts payable	84.7	—	84.7
Compensation and benefits	11.5	—	11.5
Other accrued items	44.7	1.1	45.8
Advance payments and unearned income	22.3	—	22.3
Income taxes payable	6.8	—	6.8
Restructuring liabilities	10.8	—	10.8
Current portion of long-term capital lease obligation to Harris Corporation	3.1	—	3.1
Due to Harris Corporation	17.2	—	17.2
Total current liabilities	<u>213.0</u>	<u>1.1</u>	<u>214.1</u>
<i>Long-term liabilities</i>	<u>67.1</u>	<u>(2.1)</u>	<u>65.0</u>
Total liabilities	280.1	(1.0)	279.1
Total shareholders' equity	758.0	(11.6)	746.4
Total liabilities and shareholders' equity	<u>\$ 1,038.1</u>	<u>\$ (12.6)</u>	<u>\$ 1,025.5</u>

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	For the Two Quarters Ended December 28, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Net loss	\$ (1.8)	\$ (1.6)	\$ (3.4)
Net cash provided by operating activities	12.1	—	12.1
Amortization of identifiable intangible assets acquired in the Stratex acquisition	7.2	—	7.2
Depreciation and amortization of property, plant and equipment and capitalized software	9.4	—	9.4
Non-cash stock-based compensation expense	3.6	—	3.6
Non-cash charges for restructuring and inventory write-downs	7.8	—	7.8
Increase in fair value of warrants	(0.8)	—	(0.8)
Deferred income tax expense	(3.5)	—	(3.5)
Changes in operating assets and liabilities:			
Receivables	(20.9)	0.2	(20.7)
Unbilled costs and inventories	0.6	2.4	3.0
Accounts payable and accrued expenses	7.1	—	7.1
Advance payments and unearned income	5.5	—	5.5
Due to Harris Corporation	0.5	—	0.5
Other	(2.6)	(1.0)	(3.6)
Net cash provided by investing activities	0.3	—	0.3
Net cash used in financing activities	(7.9)	—	(7.9)
Effect of exchange rate changes on cash and cash equivalents	(0.7)	—	(0.7)
Net increase in cash and cash equivalents	3.8	—	3.8
Cash and cash equivalents, beginning of year	\$ 69.2	—	\$ 69.2
Cash and cash equivalents, end of year	\$ 73.0	\$ —	\$ 73.0

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	For the Two Quarters Ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Net income	\$ 10.6	\$ (0.6)	\$ 10.0
Net cash provided by operating activities	(5.7)	—	(5.7)
Amortization of identifiable intangible assets acquired in the Stratex acquisition	—	—	—
Depreciation and amortization of property, plant and equipment and capitalized software	6.2	—	6.2
Non-cash stock-based compensation expense	—	—	—
Non-cash charges for restructuring and inventory write-downs	—	—	—
Increase in fair value of warrants	—	—	—
Deferred income tax expense	—	—	—
Changes in operating assets and liabilities:			
Receivables	15.4	—	15.4
Unbilled costs and inventories	(23.7)	0.6	(23.1)
Accounts payable and accrued expenses	(4.5)	—	(4.5)
Advance payments and unearned income	6.4	—	6.4
Due to Harris Corporation	(12.3)	—	(12.3)
Other	(3.8)	—	(3.8)
Net cash provided by investing activities	(5.0)	—	(5.0)
Net cash used in financing activities	8.4	—	8.4
Effect of exchange rate changes on cash and cash equivalents	0.7	—	0.7
Net increase in cash and cash equivalents	(1.6)	—	(1.6)
Cash and cash equivalents, beginning of year	\$ 13.8	—	\$ 13.8
Cash and cash equivalents, end of year	\$ 12.2	\$ —	\$ 12.2

Acquisition of Stratex Networks, Inc. and Combination with MCD

On January 26, 2007, Harris Stratex Networks, Inc. (the “Company,” “HSTX,” “Harris Stratex,” “we,” “us” and “our”) completed its merger (the “Stratex acquisition”) with Stratex Networks, Inc. (“Stratex”) pursuant to a Formation, Contribution and Merger Agreement among Harris, Stratex, and Stratex Merger Corp., as amended and restated on December 18, 2006 and amended by letter agreement on January 26, 2007. In the transaction, Stratex Merger Corp., a wholly-owned subsidiary of the Company, merged with and into Stratex with Stratex as the surviving corporation (renamed as “Harris Stratex Networks Operating Corporation”). Concurrently with the merger of Stratex and Stratex Merger Corp. (the “merger”), Harris contributed the Microwave Communications Division (“MCD”), along with \$32.1 million in cash (comprised of \$26.9 million contributed on January 26, 2007 and \$5.2 million held by the Company’s foreign operating subsidiaries on January 26, 2007) to the Company and the Company assumed the liabilities (with certain exceptions) of MCD (the “contribution transaction”).

Pursuant to the merger, each share of Stratex common stock was converted into one-fourth of a share of our Class A common stock, and a total of 24,782,153 shares of our Class A common stock were issued to the former holders of Stratex common stock. In the contribution transaction, Harris contributed the assets of MCD, along with \$32.1 million in cash, and in exchange, we assumed certain liabilities of Harris related to MCD and issued 32,913,377 shares of our Class B common stock to Harris. As a result of these transactions, Harris owned approximately 57% and the former Stratex shareholders owned approximately 43% of our total outstanding stock immediately following the closing.

We completed the Stratex acquisition to create a leading global communications solutions company offering end-to-end wireless transmission solutions for mobile and fixed-wireless service providers and private networks.

The Stratex acquisition was accounted for as a purchase business combination with MCD considered the acquiror for accounting purposes. Thus, the historical results discussed herein for periods prior to January 26, 2007 represent the separate financial results of MCD on a carve-out basis. Total consideration paid by us was approximately \$493.1 million as summarized in the following table:

<u>Calculation of Allocable Purchase Price</u>	<u>January 26, 2007</u>
	(In millions)
Value of Harris Stratex Networks shares issued to Stratex Networks stockholders	\$ 464.9
Value of Stratex Networks vested options assumed	15.5
Acquisition costs	12.7
Total allocable purchase price	<u>\$ 493.1</u>

Overview

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations, which is sometimes referred to in this Quarterly Report on Form 10-Q/A as the MD&A, is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to our condensed consolidated financial statements and related notes presented under *Item 1. Financial Statements* of this report.

The following is a list of the sections of the MD&A, together with the perspective of our management on the contents of these sections of the MD&A, which is intended to make reading these pages more productive:

- Business Considerations — a general description of our businesses; the drivers of these businesses and our strategy for achieving value and key indicators that are relevant to us in the microwave communications industry.
- Operations Review — an analysis of our consolidated results of operations and of the results in each of its three operating segments, to the extent the operating segment results are helpful to gaining an understanding of our business as a whole.
- Liquidity, Capital Resources and Financial Strategies — an analysis of cash flows, 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.

Business Considerations

General

MCD was a leading global provider of turnkey wireless transmission solutions and comprehensive network management software, with an extensive services suite. With innovative products and a broad portfolio, MCD was a market share leader in North America and a top-tier provider in international markets, most notably in the growing Middle East/Africa region. Stratex Networks was a leading provider of innovative wireless transmission solutions to mobile wireless carriers and data access providers around the world. As a result of the combination of the two historical businesses, Harris Stratex was formed and has become a leading independent wireless networks solutions provider, focused on delivering 1) microwave digital radio and other communications products, systems and professional services for private network operators and mobile telecommunications providers; and 2) turnkey end-to-end network management and service assurance solutions for broadband and converged networks. Our three segments serve markets for microwave products and services in North America Microwave, International Microwave and network management software solutions worldwide or Network Operations. All of our revenue, income and cash flow are derived from the sale of these products, systems, software and services. We generally sell directly to the end customer. However, to extend our global footprint and maximize our penetration in certain markets, we sometimes sell through agents, resellers and/or distributors, particularly in international markets.

Our mission statement is: “Harris Stratex Networks offers the most reliable, flexible, scalable, and easy to use wireless network solutions in the world for mobile, government and private networks. Every day, we build lasting customer relationships, grow our company and build new value for our shareholders by listening to our customers, delivering innovative products matched to market demand and offering superior service and quality. We’re committed to helping customers meet their competitive demands by building new wireless networks, upgrading existing networks and providing complete professional services.”

Drivers of Harris Stratex Businesses and Strategy for Achieving Value

We are committed to our mission statement, and we believe that executing the mission statement creates value. Consistent with this commitment, we currently focus on these key drivers:

- Achieving profitable revenue growth in all segments;
- Focusing on operating efficiencies and cost reductions; and
- Maintaining an efficient capital structure.

Achieving Profitable Revenue Growth in All Segments

We are a global provider of wireless transmission networks solutions. We focus on capitalizing on our strength in the North American market by continuing to win opportunities with wireless telecommunications providers as well as federal, state and other private network operators. Growth opportunities will come from network and capacity expansion and the evolution to IP networking in both the public and private segments. Other growth drivers include the emerging *triple-play* services (voice, data and video) market in the public sector, the trend towards network hardening and interoperability for public safety and disaster response agencies and the FCC directive to relocate frequency bands in the 2 GHz range to open up spectrum for Advanced Wireless Services. Wireless transmission systems are particularly well-suited to meet increasing demand for high-reliability, high-bandwidth networks that are more secure and better protected against natural and man-made disasters.

We are focused on increasing international revenue by offering innovative new products and expanding regional sales channels to capture greenfield network opportunities. We also focus on two major evolutionary trends in the global communications market by 1) penetrating large regional mobile telecom operators to participate in network expansion and new third-generation (“3G”) network opportunities; and 2) enabling the migration to Internet Protocol (IP) networking in both the public and private segments by providing both IP-enabled and IP-centric wireless transmission solutions.

We offer a broad range of engineering and other professional services for network planning, systems architecture design and project management as a global competitive advantage. We will expand our Network Operations offerings in microwave and non-microwave opportunities to create a differentiator for our total solutions offerings.

Backlog

The backlog of unfilled orders was \$230 million at December 28, 2007 compared with \$232 million at July 27, 2007. Substantially all of this backlog is expected to be filled during calendar year 2008, but we can give no assurance of such fulfillment. Product orders in our current backlog are subject to changes in delivery schedules or to cancellation at the option of the purchaser without significant penalty. Accordingly, although useful for scheduling production, backlog as of any particular date may not be a reliable measure of sales for any future period because of the timing of orders, delivery intervals, customer and product mix and the possibility of changes in delivery schedules and additions or cancellations of orders.

Focusing on Operating Efficiencies and Cost Reductions

The principal areas of focus for operating efficiencies and cost management are: 1) reducing procurement costs through an emphasis on coordinated supply chain management; 2) reducing product costs through dedicated value engineering resources focused on product value engineering; 3) improving manufacturing efficiencies across all segments; and 4) optimizing facility utilization.

Maintaining an Efficient Capital Structure

Our capital structure is intended to optimize our cost of capital. We believe a strong capital position, access to key financial markets, ability to raise funds at a low effective cost and overall low cost of borrowing provide a competitive advantage. We had \$83.0 million in cash, cash equivalents, short-term investments and available for sale securities as of December 28, 2007.

[Table of Contents](#)**Key Indicators**

We believe our key drivers, when fully implemented, will improve key indicators such as: revenue, gross margin, net income and operating cash flows.

Quarter Ended December 28, 2007 Compared to Quarter Ended December 29, 2006**Revenue and Net (Loss) Income (Restated)**

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
Revenue	\$ 181.1	\$ 101.2	79.0%
Net (loss) income	\$ (3.2)	\$ 4.5	N/M
% of revenue	(1.8)%	4.4%	

N/M = Not statistically meaningful

The results for the second quarter of fiscal 2008 include the operations acquired in the Stratex acquisition for the entire period while the results for the second quarter of fiscal 2007 include only the results of MCD prior to the merger. Historically, Stratex derived its revenues primarily from international markets.

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Our revenue for the second quarter of fiscal 2008 was \$181.1 million, an increase of \$79.9 million or 79.0%, compared to the second quarter of fiscal 2007. Revenue in the second quarter of fiscal 2008 included \$91.3 million from sales of former Stratex products and services. Excluding the impact of the Stratex acquisition, revenue declined \$11.4 million, primarily due to a decrease in the International Microwave segment in sales of the former MCD business products and services. Revenue in the second quarter of fiscal 2008 included a significant amount of sales of the former Stratex products and services and fewer sales of products and services of the former MCD business. The Network Operations segment revenue increased by \$1.5 million in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007, as this segment experienced increased demand for its service assurance solution with Next Generation Network customers.

Our second quarter fiscal 2008 net loss was \$3.2 million compared to net income of \$4.5 million in the second quarter of fiscal 2007, which reflected only MCD's historical operations. The second quarter fiscal 2008 net loss and second quarter fiscal 2007 net income included the following purchase accounting adjustments and other expenses related to the acquisition and integration of Stratex, FAS 123R share-based compensation expense and inventory markdowns:

	<u>Q2 FY 08</u>	<u>Q2 FY 07</u>
	(In millions)	
Cost of integration activities undertaken in connection with the merger	\$ 3.2	\$ 1.7
Amortization of the fair value adjustments related to fixed assets	0.7	—
Amortization of developed technology	1.7	—
Amortization of trade names, customer relationships and non-competition agreements	1.9	—
Restructuring charges	4.4	—
Lease impairment	0.1	—
FAS 123R share-based compensation expense	1.9	0.3
Inventory markdowns	3.7	—
Totals	<u>\$ 17.6</u>	<u>\$ 2.0</u>

These charges were classified in either cost of product sales and services or selling and administrative expenses depending on the nature of the charge in the second quarter of fiscal 2008. Excluding these charges, our operations were profitable in the second quarter of fiscal 2008.

During the quarter ended December 28, 2007, we continued the restructuring activities and plans approved in connection with the merger between MCD and Stratex. These restructuring plans included the consolidation of facilities and operations of the predecessor entities in Canada, France, the U.S., China, Brazil and, to a lesser extent, Mexico, New Zealand and the United Kingdom.

We recorded an additional \$4.4 million of restructuring charges in connection with implementation of these fiscal 2007 plans during the second quarter of fiscal 2008. The costs related to reductions in force consisted of retention, severance and other benefits totaling \$0.9 million. We also recorded \$1.1 million in restructuring charges relating to the impairment of a lease and \$0.1 million relating to the write-off of fixed assets. These restructuring activities also resulted in scaled down operations and reduced activity in Brazil, which adversely affected the fair value of a recoverable value-added type tax ("ICMS") included in "Other current assets" on the Company's balance sheet. Consequently, we recorded an impairment of \$2.3 million in restructuring charges during the quarter ended December 28, 2007 relating to the reduction in fair value of ICMS tax recoverable in Brazil.

We expect to fully implement our 2007 restructuring plans by March 28, 2008 and anticipate that we will incur additional restructuring costs of \$0.6 million.

During the second quarter of fiscal 2008, we recorded a total of \$3.7 million for inventory markdowns which have been classified in "Cost of product sales" on the Statement of Operations during the quarter ended December 28, 2007 in accordance with the guidance in Emerging Issues Task Force ("EITF") Abstracts Issues No. 96-9 "Classification of Inventory Markdowns and Other Costs Associated with a Restructuring."

[Table of Contents](#)**Gross Margin (Restated)**

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
Revenue	\$ 181.1	\$ 101.2	79.0%
Cost of product sales and services	\$ 132.1	\$ 67.7	95.1%
Gross margin	\$ 49.0	\$ 33.5	46.3%
% of revenue	27.1%	33.1%	

Our second quarter fiscal 2008 gross margin was \$49.0 million, or 27.1% of revenue, compared to \$33.5 million, or 33.1% of revenue in the second quarter of fiscal 2007. Our second quarter fiscal 2008 gross margin was reduced by \$3.7 million in markdowns of inventory, \$1.7 million of amortization on developed technology, \$0.2 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex and \$0.9 million of merger integration costs. In the second quarter of fiscal 2007, we did not incur such costs. Gross margin increased in the second quarter fiscal 2008 primarily due to sales of former Stratex products and services (such as Eclipse) in our International Microwave segment and an increase in revenue from our Network Operations segment.

Our gross margin percentage in the second quarter of fiscal 2008 was comparatively lower than the gross margin percentage in the second quarter of fiscal 2007 because of the expenses described above and because our International Microwave segment revenue included a significant amount of the lower-margin, low-capacity version of Eclipse microwave radio sales in the second quarter of fiscal 2008. In addition, we experienced a shift in sales from the Africa and Europe, Middle East and Russia regions to the Latin America and Asia Pacific regions, where prices for our products and services are generally lower. Finally, we absorbed an increase in freight and service costs during the second quarter of fiscal 2008. We anticipate product mix and increased freight and service costs will continue to impact International Microwave segment gross margins to a similar extent for the remainder of fiscal year 2008.

Research and Development Expenses

	<u>Q2 FY 08</u>	<u>Q2 FY 07</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
Revenue	\$ 181.1	\$ 101.2	79.0%
Research and development expenses	\$ 10.9	\$ 8.3	31.3%
% of revenue	6.0%	8.2%	

Research and development (“R&D”) expenses were \$10.9 million in the second quarter of fiscal 2008, compared to \$8.3 million in the second quarter of fiscal 2007. As a percent of revenue, these expenses decreased from 8.2% in the second quarter of fiscal 2007 to 6.0% in the second quarter of fiscal 2008 due to higher revenue. The majority of the increase in spending in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 was attributable to the R&D activities acquired from Stratex. Some of the increase was attributable to higher spending in the second quarter of fiscal 2008 related to our TRuepoint 6000 development efforts.

Selling and Administrative Expenses (Restated)

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
Revenue	\$ 181.1	\$ 101.2	79.0%
Selling and administrative expenses	\$ 36.2	\$ 17.8	N/M
% of revenue	20.0%	17.6%	

N/M = Not statistically meaningful

Our second quarter fiscal 2008 selling and administrative (“S&A”) expenses increased to \$36.2 million from \$17.8 million in the second quarter of fiscal 2007. As a percentage of revenue, these expenses increased from 17.6% of revenue in the second quarter of fiscal 2007 to 20.0% of revenue in the second quarter of fiscal 2008. The majority of the increase in spending in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007 was attributable to S&A expenses associated with the former Stratex business. The remainder of the increase was due to higher selling expenses associated with the increase in revenue, and increased costs incurred for compliance with Sarbanes-Oxley requirements. We anticipate that the total cost of compliance with Sarbanes-Oxley will be approximately \$3.0 million in fiscal 2008.

[Table of Contents](#)**Income Taxes (Restated)**

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
(Loss) income before income taxes	\$ (4.8)	\$ 4.8	N/M
Income tax benefit (provision)	\$ 1.6	\$ (0.3)	N/M
% of (loss) income before income taxes	33.3%	6.3%	

N/M = Not statistically meaningful

The income tax benefit of \$1.6 million for the second quarter of fiscal 2008 reflected our pre-tax loss based on our estimated annual effective tax rate. The variation between income taxes and income tax expense at the statutory rate of 35% was primarily due to the consolidation of our foreign operations, which are subject to income taxes at lower statutory rates.

The income tax provision for the second quarter of fiscal 2007 was \$0.3 million and was based upon an allocation of tax expense from Harris.

Discussion of Business Segments**North America Microwave Segment (Restated)**

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
Revenue	\$ 63.8	\$ 58.7	8.7%
Segment operating (loss) income	\$ (1.3)	\$ 5.4	N/M
% of revenue	(2.0)%	9.2%	

N/M = Not statistically meaningful

North America Microwave segment revenue increased by \$5.1 million or 8.7% from the second quarter of fiscal 2007 to the second quarter of fiscal 2008. Revenue for the second quarter of fiscal 2008 included \$6.1 million from sales of former Stratex products and services. Revenue drivers in the North America Microwave segment include customer demand for increased bandwidth, footprint expansion and the 2 gigahertz microwave relocation for advanced wireless services from mobile operators.

Our second quarter fiscal 2008 operating income was reduced by the following amounts related to the acquisition of Stratex and our restructuring plans: \$0.3 million amortization of the fair value adjustments for fixed assets, \$0.7 million amortization of developed technology, trade names, customer relationships, and non-compete agreements, \$4.3 million of restructuring charges, \$0.1 million in charges for impairment of a lease agreement and \$1.1 million of integration expenses undertaken in connection with the merger. The North America Microwave segment second quarter fiscal 2008 operating income was further reduced by \$1.9 million of the markdowns of inventory discussed above.

We also recorded \$1.8 million in FAS 123R share-based compensation expense during the second quarter of fiscal 2008 in our North America Microwave segment compared to \$0.3 million in the second quarter of fiscal 2007.

International Microwave Segment (Restated)

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
		(In millions, except percentages)	
Revenue	\$ 110.8	\$ 37.5	N/M
Segment operating (loss) income	\$ (3.7)	\$ 1.2	N/M
% of revenue	(3.3)%	3.2%	

N/M = Not statistically meaningful

International Microwave segment revenue increased by \$73.3 million in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007. Revenue in the second quarter of fiscal 2008 included \$85.2 million from sales of former Stratex products and services. Excluding the impact of the revenue from Stratex products and services, our International Microwave segment revenue decreased by \$11.9 million as sales were transitioning to the products and services of the former Stratex business. International Microwave segment revenue in the second quarter of fiscal 2008 included a significant amount of sales of the former Stratex business and fewer sales of the former MCD business.

International Microwave segment had an operating loss of \$3.7 million for the second quarter of fiscal 2008 compared to operating income of \$1.2 million for the second quarter of fiscal 2007. The operating loss for the second quarter of fiscal 2008 reflected the following charges related to the acquisition of Stratex: \$0.4 million amortization of the fair value adjustments for fixed assets, \$2.9 million amortization of developed technology, tradenames, customer relationships, contract backlog and non-compete agreements, and \$0.1 million of restructuring charges and \$2.1 million of integration expenses associated with the merger. Our second quarter fiscal 2008 operating loss was further increased by \$1.8 million of markdowns of inventory. In addition, we experienced a shift in sales from the Africa and Europe, Middle East and Russia regions to the Latin America and Asia Pacific regions, where prices for our products and services are generally lower. Finally, we absorbed an increase in freight and service costs during the second quarter of fiscal 2008. We anticipate product mix and freight and service costs will continue to impact International Microwave segment gross margins to a similar extent for the remainder of fiscal year 2008.

We also recorded \$0.1 million in FAS 123R share-based compensation expense during the second quarter of fiscal 2008 in our International Microwave segment compared to none in the second quarter of fiscal 2007.

Network Operations Segment

	<u>Q2 FY 08</u> <u>(Restated)</u>	<u>Q2 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
		(In millions, except percentages)	
Revenue	\$ 6.5	\$ 5.0	30.0%
Segment operating income	\$ 0.6	\$ 0.1	N/M
% of revenue	9.2%	2.0%	

N/M = Not statistically meaningful

Network Operations segment revenue increased by 30% from the second quarter of fiscal 2007 to the second quarter of fiscal 2008. This segment had operating income of \$0.6 million in the second quarter of fiscal 2008 compared to operating income of \$0.1 million in the second quarter of fiscal 2007. Additionally, operating income as a percentage of sales increased to 9.2% in the second quarter of fiscal 2008 compared to 2.0% in the second quarter of fiscal 2007. The increase in revenue resulted primarily from an increase in software and license revenue in the second quarter of fiscal 2008 compared to the second quarter of fiscal 2007.

The Network Operations segment experienced increased demand in the second quarter of fiscal 2008 for its service assurance solution with Next Generation Network customers compared to the second quarter of fiscal 2007 as a result of new features and functionality in our product offerings. The increase in second quarter fiscal 2008 operating income and as a percentage of revenue compared to second quarter fiscal 2007 was driven by product mix including an increase in higher margin software and license revenue and a decrease in selling and administrative expenses as a percentage of revenue.

[Table of Contents](#)**Two Quarters Ended December 28, 2007 Compared to the Two Quarters Ended December 29, 2006****Revenue and Net (Loss) Income (Restated)**

	<u>H1 FY 08</u> <u>(Restated)</u>	<u>H1 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
Revenue	\$ 353.4	\$ 194.8	81.4%
Net (loss) income	\$ (3.4)	\$ 10.0	N/M
% of revenue	(1.0)%	5.1%	

N/M = Not meaningful

H1 FY = First half of fiscal year or first two quarters of fiscal year

The results for the first two quarters of fiscal 2008 included the operations acquired in the Stratex acquisition for the entire period while the results for the first two quarters of fiscal 2007 included only the results of MCD prior to the merger. Historically, Stratex derived its revenues primarily from international markets.

Our revenue for the first two quarters of fiscal 2008 was \$353.4 million, an increase of \$158.6 million or 81.4%, compared to the first two quarters of fiscal 2007. Revenue in the first two quarters of fiscal 2008 included \$159.7 million from sales of former Stratex products and services. Excluding the impact of the Stratex acquisition, revenue declined \$1.1 million, primarily due to a decrease in the International Microwave segment in sales of the former MCD business products and services. Revenue in the first half of fiscal 2008 included a significant amount of sales of the former Stratex products and services and fewer sales of the former MCD business. The Network Operations segment revenue increased by \$3.5 million in the first two quarters of fiscal 2008 compared to the first two fiscal quarters of fiscal 2007, as this segment experienced increased demand for its service assurance solution with Next Generation Network customers.

Our first two quarters fiscal 2008 net loss was \$3.4 million compared to net income of \$10.0 million in the first two quarters of fiscal 2007, which reflected only MCD's historical operations. The net loss in the two quarters ended December 28, 2007 and net income in the two quarters ended December 29, 2006 included the following purchase accounting adjustments and other expenses related to the acquisition and integration of Stratex, FAS 123R share-based compensation expense and inventory markdowns:

	<u>H1 FY 08</u>	<u>H1 FY 07</u>
Cost of integration activities undertaken in connection with the merger	\$ 6.0	\$ 1.7
Amortization of the fair value adjustments related to fixed assets	1.4	—
Amortization of developed technology	3.5	—
Amortization of trade names, customer relationships and non-competition agreements	3.7	—
Restructuring charges	8.4	—
Lease impairment	0.9	—
FAS 123R share-based compensation expense	4.3	0.7
Inventory markdowns	3.7	—
Totals	<u>\$ 31.9</u>	<u>\$ 2.4</u>

These charges were classified in either cost of product sales and services or selling and administrative expenses depending on the nature of the charge in the two quarters ended December 28, 2007. Excluding these charges, our operations were profitable in the two quarters ended December 28, 2007.

During the two quarters ended December 28, 2007, we continued the restructuring activities and plans approved in connection with the merger between MCD and Stratex. These restructuring plans included the consolidation of facilities and operations of the predecessor entities in Canada, France, the U.S., China, Brazil and, to a lesser extent, Mexico, New Zealand and the United Kingdom.

We recorded an additional \$8.4 million of restructuring charges in connection with implementation of these fiscal 2007 plans during the two quarters ended December 28, 2007. The costs related to reductions in force consisted primarily of retention, severance and other benefits totaling \$3.4 million. We also recorded \$1.9 million in restructuring charges related to the impairment of a lease, \$1.4 million relating to the write-off of fixed assets and leasehold improvements and \$2.3 million relating to the reduction in fair value of ICMS tax recoverable in Brazil.

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These restructuring charges in the first two quarters of fiscal 2008 were partially offset by \$0.3 million for the reduction in severance estimated to be paid in France and a \$0.3 million reduction in the amount estimated to close out our restructuring liability in connection with our fiscal year 2006 restructuring plan to transfer our Montreal manufacturing activities to our San Antonio, Texas facility.

We expect to fully implement our 2007 restructuring plans by March 28, 2008 and anticipate that we will incur additional restructuring costs of \$0.6 million.

Gross Margin (Restated)

	<u>H1 FY 08</u> <u>(Restated)</u>	<u>H1 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
Revenue	\$ 353.4	\$ 194.8	81.4%
Cost of product sales and services	\$ (257.4)	\$ (129.8)	98.3%
Gross margin	\$ 96.0	\$ 65.0	47.7%
% of revenue	27.2%	33.4%	

Gross margin for the first two quarters of fiscal 2008 was \$96.0 million, or 27.2% of revenue, compared to \$65.0 million, or 33.4% of revenue in the first two quarters of fiscal 2007. Our first two quarters fiscal 2008 gross margin was reduced by \$3.7 million in markdowns of inventory, \$3.5 million of amortization on developed technology and \$0.4 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex and \$1.5 million of merger integration costs. In the first two quarters of fiscal 2007, we did not incur costs for these items in our gross margin. The increase in gross margin during the first two quarters of fiscal 2008 resulted from sales of former Stratex products and services primarily in our International Microwave segment and gross margin generated by the increase in revenue from our Network Operations segment.

Our gross margin percentage in the first two quarters of fiscal 2008 was comparatively lower than the gross margin percentage in the first two quarters of fiscal 2007 because of the expenses described above and because our International Microwave segment revenue included a significant amount of the lower-margin, low-capacity version of Eclipse microwave radio sales in the first two quarters of fiscal 2008. In addition, we experienced a shift in sales from the Africa and Europe, Middle East and Russia regions to the Latin America and Asia Pacific regions, where prices for our products and services are generally lower. Finally, we absorbed an increase in freight and service costs during the first two quarters of fiscal 2008.

Research and Development Expenses

	<u>H1 FY 08</u>	<u>H1 FY 07</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
	(In millions, except percentages)		
Revenue	\$ 353.4	\$ 194.8	81.4%
Research and development expenses	\$ 23.3	\$ 15.8	47.5%
% of revenue	6.6%	8.1%	

Research and development (“R&D”) expenses were \$23.3 million in the first two quarters of fiscal 2008, compared to \$15.8 million in the first two quarters of fiscal 2007. As a percent of revenue, these expenses decreased from 8.1% in the first two quarters of fiscal 2007 to 6.6% in the first two quarters of fiscal 2008 due to higher revenue. The majority of the increase in spending in the first two quarters of fiscal 2008 compared to the first two quarters of fiscal 2007 was attributable to the R&D activities acquired from Stratex. Some of the increase was attributable to higher spending in the first two quarters of fiscal 2008 related to our TRuepoint 6000 development efforts.

[Table of Contents](#)**Selling and Administrative Expenses (Restated)**

	<u>H1 FY 08 (Restated)</u>	<u>H1 FY 07 (Restated)</u>	<u>Percentage Increase/(Decrease)</u>
			(In millions, except percentages)
Revenue	\$ 353.4	\$ 194.8	81.4%
Selling and administrative expenses	\$ 65.0	\$ 34.2	90.1%
% of revenue	18.4%	17.6%	

Our first two quarters of fiscal 2008 selling and administrative (“S&A”) expenses increased to \$65.0 million from \$34.2 million in the first two quarters of fiscal 2007. As a percentage of revenue, these expenses increased from 17.6% of revenue in the first two quarters of fiscal 2007 to 18.4% of revenue in the first two quarters of fiscal 2008 due primarily to \$4.5 million of expenses incurred related to integration activities undertaken in connection with the merger. The majority of the increase in spending in the first two quarters of fiscal 2008 compared to the first two quarters of fiscal 2007 was attributable to the S&A expenses associated with the former Stratex business. The remainder of the increase was due to higher selling expenses associated with the increase in revenue, and increased costs incurred for compliance with Sarbanes-Oxley requirements.

Income Taxes (Restated)

	<u>H1 FY 08 (Restated)</u>	<u>H1 FY 07 (Restated)</u>	<u>Percentage Increase/(Decrease)</u>
			(In millions, except percentages)
(Loss) income before income taxes	\$ (4.8)	\$ 10.7	N/M
Income tax benefit (provision)	\$ 1.4	\$ (0.7)	N/M
% of (loss) income before income taxes	(29.2)%	6.5%	

N/M=Not statistically meaningful

The income tax benefit of \$1.4 million for the first two quarters of fiscal 2008 reflected our pre-tax loss based on our estimated annual effective tax rate. The variation between income taxes and income tax expense at the statutory rate of 35% was primarily due to the consolidation of our foreign operations, which are subject to income taxes at lower statutory rates.

The income tax provision for the first two quarters of fiscal 2007 was \$0.7 million and was based upon an allocation of tax expense from Harris.

Discussion of Business Segments**North America Microwave Segment (Restated)**

	<u>H1 FY 08 (Restated)</u>	<u>H1 FY 07 (Restated)</u>	<u>Percentage Increase/(Decrease)</u>
			(In millions, except percentages)
Revenue	\$ 120.4	\$ 108.6	10.9%
Segment operating (loss) income	\$ (1.6)	\$ 9.1	N/M
% of revenue	(1.3)%	8.4%	

N/M=Not statistically meaningful

North America Microwave segment revenue increased by \$11.8 million or 10.9% from the first two quarters of fiscal 2007 to the first two quarters of fiscal 2008. Revenue for the first two quarters of fiscal 2008 included \$13.0 million from sales of former Stratex products and services. Revenue drivers in the North America Microwave segment include customer demand for increased bandwidth, footprint expansion and the 2 gigahertz microwave relocation for advanced wireless services from mobile operators.

Our first two quarters of fiscal 2008 operating loss was increased by the following amounts related to the acquisition of Stratex: \$0.5 million amortization of the fair value adjustments for fixed assets, \$1.3 million amortization of developed technology, trade names, customer

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relationships, and non-compete agreements, \$8.1 million of restructuring charges, \$0.9 million in charges for impairment of a lease agreement and \$2.1 million of integration expenses undertaken in connection with the merger including the reduction in force at our Montreal facility. The North America Microwave segment first two quarters fiscal 2008 operating loss was further increased by \$1.9 million of the markdowns of inventory discussed above.

The North America Microwave segment operating results were also negatively impacted because we recorded \$4.1 million in FAS 123R share-based compensation expense during the first two quarters of fiscal 2008 compared to \$0.7 million in the first two quarters of fiscal 2007.

International Microwave Segment (Restated)

	<u>H1 FY 08</u> <u>(Restated)</u>	<u>H1 FY 07</u> <u>(Restated)</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
			(In millions, except percentages)
Revenue	\$ 220.0	\$ 76.7	N/M
Segment operating (loss) income	\$ (4.2)	\$ 4.8	N/M
% of revenue	(1.9)%	6.3%	

N/M=Not statistically meaningful

International Microwave segment revenue increased by \$143.3 million in the first two quarters of fiscal 2008 compared to the first two quarters of fiscal 2007. Revenue in the first two quarters of fiscal 2008 included \$146.7 million from sales of former Stratex products and services. Excluding the impact of the revenue from Stratex products and services, our International Microwave segment revenue decreased by \$3.4 million as sales were transitioning to the products and services of the former Stratex business. International Microwave segment revenue in the second quarter of fiscal 2008 included a significant amount of sales of the former Stratex business and fewer sales of the former MCD business.

The International Microwave segment had an operating loss of \$4.2 million for the first two quarters of fiscal 2008 compared to operating income of \$4.8 million for the first two quarters of fiscal 2007. The operating loss for the first two quarters of fiscal 2008 reflected the following charges related to the acquisition of Stratex: \$0.9 million amortization of the fair value adjustments for fixed assets, \$5.9 million amortization of developed technology, tradenames, customer relationships, contract backlog and non-compete agreements, and \$0.3 million of restructuring charges and \$3.9 million of integration expenses associated with the merger.

Our first two quarters fiscal 2008 operating loss was further increased by \$1.8 million of markdowns of inventory. In addition, we experienced a shift in sales from the Africa and Europe, Middle East and Russia regions to the Latin America and Asia Pacific regions, where prices for our products and services are generally lower. Finally, we absorbed an increase in freight and service costs during the first two quarters of fiscal 2008. We anticipate product mix and increased freight and service costs will continue to impact International Microwave segment gross margins to a similar extent for the remainder of fiscal year 2008.

We also recorded \$0.2 million in FAS 123R share-based compensation expense during the first two quarters of fiscal 2008 in our International Microwave segment compared to none in the first two quarters of fiscal 2007.

Network Operations Segment

	<u>H1 FY 08</u>	<u>H1 FY 07</u>	<u>Percentage</u> <u>Increase/(Decrease)</u>
			(In millions, except percentages)
Revenue	\$ 13.0	\$ 9.5	36.8%
Segment operating income	\$ 1.4	\$ 0.4	N/M
% of revenue	10.8%	4.2%	

N/M=Not statistically meaningful

Network Operations segment revenue increased by 36.8% from the first two quarters of fiscal 2007 to the first two quarters of fiscal 2008. This segment had operating income of \$1.4 million in the first two quarters of fiscal 2008, which more than tripled compared to operating income of \$0.4 million in the first two quarters of fiscal 2007. Additionally, operating income as a percentage of sales increased to 10.8% in the first

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two quarters of fiscal 2008 compared to 4.2% in the first two quarters of fiscal 2007. The increase in revenue resulted primarily from an increase in software and license revenue in the first two quarters of fiscal 2008 compared to the first two quarters of fiscal 2007.

The Network Operations segment experienced increased demand in the first two quarters of fiscal 2008 for its service assurance solution with Next Generation Network customers compared to the first two quarters of fiscal 2007 as a result of new features and functionality in our product offerings. The increase in first two quarters fiscal 2008 operating income and as a percentage of revenue compared to first two quarters of fiscal 2007 was driven by product mix including an increase in higher margin software and license revenue and a decrease in selling and administrative expenses as a percentage of revenue.

Related Party Transactions with Harris

Prior to the Stratex acquisition, Harris provided information services, human resources, financial shared services, facilities, legal support and supply chain management services to us. The charges for those services were billed to us primarily based on actual usage. During the quarter and two quarters ended December 29, 2006, Harris charged us \$1.5 million and \$3.1 million for those services.

On January 26, 2007, we entered into a Transition Services Agreement with Harris to provide for certain services during the periods subsequent to the Stratex acquisition. These services also are charged to us based primarily on actual usage and include database management, supply chain operating systems, eBusiness services, sales and service, financial systems, back office material resource planning support, HR systems, internal and information systems shared services support, network management and help desk support, and server administration and support. During the quarter and two quarters ended December 28, 2007, Harris charged us \$1.7 million and \$3.4 million for these services.

We have sales to, and purchases from, other Harris entities from time to time. Prior to January 26, 2007, the entity initiating the transaction sold to the other Harris entity at cost or transfer price, depending on jurisdiction. The entity making the sale to the end customer recorded the profit on the transaction above cost or transfer price, depending on jurisdiction. Subsequent to January 26, 2007, these purchases and sales are recorded at market price. Our sales to other Harris entities were \$3.7 million and \$0.9 million for the quarters ended December 28, 2007 and December 29, 2006 and \$4.9 million and \$1.4 million for the two quarters ended December 28, 2007 and December 29, 2006. We also recognized costs associated with related party purchases from Harris of \$4.0 million and \$0.1 million for the quarters ended December 28, 2007 and December 29, 2006 and 4.6 million, and \$2.7 million for the two quarters ended December 28, 2007 and December 29, 2006.

Harris was the primary source of our financing and equity activities through January 26, 2007, the date of the Stratex acquisition. During the two quarters ended December 29, 2006, Harris' net investment in us increased by \$8.5 million.

Additionally, through the date of the Stratex acquisition, Harris loaned cash to us to fund our international entities, and we distributed excess cash back to Harris. This arrangement ended on January 26, 2007. We recognized interest income and expense on these loans. The amount of interest income and expense for the quarter and two quarters ended December 29, 2006 was not significant.

The unpaid amounts billed from Harris are included within "Due to Harris Corporation" on the condensed consolidated balance sheets. Additionally, we have other receivables and payables in the normal course of business with Harris. These amounts are netted within "Due to Harris Corporation" on the condensed consolidated balance sheets. Total receivables from Harris were \$1.8 million and \$0.7 million at December 28, 2007 and June 29, 2007. Total payables to Harris were \$18.0 million and \$17.9 million at December 28, 2007 and June 29, 2007.

Prior to January 26, 2007, MCD used certain assets in Canada owned by Harris that were not contributed to us as part of the Combination Agreement. We continue to use these assets in our business and, on January 26, 2007, we entered into a five-year lease agreement with Harris for these assets. This agreement is a capital lease under U.S. generally accepted accounting principles with an initial lease obligation balance of \$5.9 million and the related asset amount included in property, plant and equipment on our balance sheet.

During the first quarter of fiscal 2008, we recognized an impairment charge of \$1.3 million on a portion of these assets which is included in our restructuring charges. We also recognized an increase of \$0.4 million to the lease obligation balance during the quarter ended December 28, 2007 from a recapitalization under the lease terms, primarily because of the impairment charge discussed above and a rescheduling of the lease payments. Quarterly lease payments are due to Harris based on the amount of 103% of Harris' annual depreciation calculated in accordance with U.S. generally accepted accounting principles. Our depreciation expense on this capital lease was \$0.5 million and \$0.9 million during the quarter and two quarters ended December 28, 2007.

During the first quarter of fiscal 2008, we paid Harris \$2.0 million under this capital lease obligation resulting from the \$1.3 million impairment discussed above and the principal payments. As of December 28, 2007, our total capital lease obligation to Harris was \$4.3 million.

Liquidity and Capital Resources**Cash Flows**

	Two Quarters Ended	
	December 28, 2007	December 29, 2006
	(In millions)	
Net cash provided by (used in) operating activities	\$ 12.1	\$ (5.7)
Net cash provided by (used in) investing activities	0.3	(5.0)
Net cash (used in) provided by financing activities	(7.9)	8.4
Effect of foreign exchange rate changes on cash	(0.7)	0.7
Net increase (decrease) in cash and cash equivalents	<u>\$ 3.8</u>	<u>\$ (1.6)</u>

Cash and Cash Equivalents

We consider all highly liquid debt instruments purchased with a remaining maturity of three months or less at the time of purchase to be cash equivalents. Our cash and cash equivalents increased by \$3.8 million to \$73.0 million at the end of the second quarter of fiscal 2008. We generated \$12.1 million in cash flow from operations, \$14.8 million in cash and cash equivalents from the sale of short-term investments and realized proceeds from the exercise of stock options of \$0.9 million. These increases to cash and cash equivalents were partially offset by our purchase of short-term investments totaling \$4.4 million, \$3.6 million in purchases of property, plant and equipment, \$6.5 million in additions to capitalized software, the repayment of \$1.2 million in short-term debt and principal payments of \$5.6 million on long-term debt.

Our cash and cash equivalents decreased by \$1.6 million to \$12.2 million at the end of the first two quarters of fiscal 2007, primarily due to \$8.5 million in cash and other transfers from Harris which were more than offset by \$1.9 million in purchases of property, plant and equipment, \$3.1 million of additions to capitalized software and \$5.7 million cash and cash equivalents used in operations.

Net Cash Provided by (Used in) Operating Activities

Our net cash and cash equivalents provided by operating activities was \$12.1 million in the first two quarters of fiscal 2008 compared to \$5.7 million used in operating activities in the first two quarters of fiscal 2007. Operating cash flow in the first two quarters of fiscal 2008 was positively affected by increases in accounts payable and accrued expenses (\$7.1 million), an increase in advance payments and unearned income (\$5.5 million) and other cash flow from operations. These increases to operating cash flow were partially offset by an increase of \$20.7 million in receivables during the first two fiscal quarters of fiscal 2008.

Net Cash Provided by (Used in) Investing Activities

Our net cash provided by investing activities was \$0.3 million in the first two quarters of fiscal 2008 compared to \$5.0 million used in investing activities during the first two quarters of fiscal 2007. Net cash used in investing activities in the first two quarters of fiscal 2008 was \$4.4 million in purchases of short-term investments, \$6.5 million of additions of capitalized software primarily for the purchase and implementation of new enterprise-wide information systems and \$3.6 million of additions of property, plant and equipment. These uses of cash in investing activities during the first two quarters of fiscal 2008 were more than offset by the receipt of \$14.8 million in proceeds from the sale and maturity of short-term investments and available for sale securities. Net cash used in investing activities in the first two quarters of fiscal 2007 was due to \$1.9 million of additions of plant and equipment and \$3.1 million of additions of capitalized software.

Net Cash (Used in) Provided by Financing Activities

Our net cash used in financing activities in the first two quarters of fiscal 2008 was \$7.9 million compared to \$8.4 million provided by financing activities in the first two quarters of fiscal 2007. The net cash used in financing activities in the first two quarters of fiscal 2008 was for the repayment of \$1.2 million in short-term debt, payment of \$2.0 million on our capital lease obligation to Harris and \$5.6 million in principal payments on long-term debt. We received \$0.9 million in proceeds from the exercise of former Stratex options. In the first two quarters of fiscal 2007, our cash provided by financing activities was primarily from net cash and other transfers from Harris totaling \$8.5 million.

Sources of Liquidity

At December 28, 2007, our principal sources of liquidity consisted of \$83.0 million in cash, cash equivalents, short-term investments and available for sale securities and \$27.9 million of available credit under our \$50 million credit facility.

Available Credit Facility and Repayment of Debt

At December 28, 2007, we had \$27.9 million of credit available against our \$50 million revolving credit facility with a commercial bank as mentioned above. The total amount of revolving credit available is \$50 million less the outstanding balance of the term loan portion and any usage under the revolving credit portion. The balance of the term loan portion of our credit facility was \$13.9 million as of December 28, 2007 and there were \$8.2 million outstanding in standby letters of credit as of that date, which are defined as usage under the revolving credit portion of the facility. There were no borrowings under the short-term debt portion of the facility as of December 28, 2007.

Our debt consisted of the following at December 28, 2007 and June 29, 2007:

	December 28, 2007	June 29, 2007
	(In millions)	
Credit Facility with Bank:		
Term Loan A	\$ 2.6	\$ 5.7
Term Loan B	11.3	13.8
Other short-term notes	—	1.2
Total	13.9	20.7
Less current portion and short-term notes	(7.6)	(11.9)
Long-term debt	<u>\$ 6.3</u>	<u>\$ 8.8</u>

Term Loan A of the Credit Facility requires monthly principal payments of \$0.5 million plus interest at a fixed rate of 6.38% through May 2008. Term Loan B requires monthly principal payments of \$0.4 million plus interest at a fixed rate of 7.25% through March 2010.

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At December 28, 2007, our future debt principal payment obligations were as follows:

	<u>Years Ending in June</u> <u>(In millions)</u>
2008	\$ 5.1
2009	5.0
2010	3.8
Total	<u>\$ 13.9</u>

Based on covenants included as part of the credit facility we were required to maintain, as measured at the last day of each fiscal quarter, tangible net worth of at least \$54 million plus: 1) 25% of net income, as determined in accordance with U.S. GAAP (exclusive of losses); and 2) 50% of any increase to net worth due to subordinated debt or net equity proceeds from either public or private offerings (exclusive of issuances of stock under our employee benefit plans) for such quarter and all preceding quarters since December 31, 2005. We also were required to maintain, as measured at the last day of each fiscal month, a ratio of not less than 1.25 determined as follows: (a) the sum of total unrestricted cash and cash equivalents plus short-term and long-term marketable securities plus 25% of all accounts receivable due to us minus certain outstanding bank services and reserve for foreign currency contract transactions divided by (b) the aggregate amount of outstanding borrowings and other obligations to the bank. As of December 28, 2007, we were in compliance with these financial covenants.

Restructuring and Severance Payments

We had total liability for restructuring activities of \$15.8 million as of December 28, 2007, of which \$9.8 million was classified as a current liability and expected to be paid out in cash over the next 12 months.

Contractual Obligations

At December 28, 2007, we had contractual cash obligations for repayment of debt and related interest, purchase obligations to acquire goods and services, payments for operating lease commitments, obligations to Harris, payments on our restructuring and severance liabilities, redemption of our preference shares and payment of the related required dividend payments and other current liabilities on our balance sheet in the normal course of business. The amounts disclosed in our Fiscal 2007 Form 10-K included our contractual obligations as of June 29, 2007. During the two quarters ended December 28, 2007, no material changes occurred in our contractual obligations, except that our purchase obligations to acquire goods and services increased from June 29, 2007 by \$15.4 million to \$39.0 million. The increase was due to additional purchase obligations with our contract manufacturers.

Commercial Commitments

We have entered into commercial commitments in the normal course of business including surety bonds, standby letters of credit and other arrangements with financial institutions and insurers primarily relating to the guarantee of future performance on certain contracts to provide products and services to customers. The amounts disclosed in our Fiscal 2007 Form 10-K include our commercial commitments. During the two quarters ended December 28, 2007, no material changes occurred in our commercial commitments and contingent liabilities on outstanding letters of credit, guarantees and other arrangements as disclosed in our Fiscal 2007 Form 10-K.

Use of Estimates and Critical Accounting Policies

Use of Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP, and the application of U.S. GAAP requires management to make estimates that affect our reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. In many instances, we could have reasonably used different accounting estimates. In other instances, changes in the accounting estimates from period to period are reasonably likely to occur. Accordingly, actual results could differ significantly from the estimates made by management. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation of our financial condition or results of operations may be affected.

On an ongoing basis, we evaluate our estimates, including those related to revenue recognition, provision for doubtful accounts and sales returns, provision for inventory obsolescence, fair value of investments, fair value of acquired intangible assets and goodwill,

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useful lives of intangible assets and property and equipment, income taxes, restructuring obligations, product warranty obligations, and contingencies and litigation, among others. We base our estimates on historical experience, our assessment of current factors impacting the estimates and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. We refer to accounting estimates of this type as “critical accounting estimates.”

Critical Accounting Policies

Our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes are prepared in accordance with U.S. generally accepted accounting principles. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note B — “Significant Accounting Policies” in our Notes to Consolidated Financial Statements included in our Fiscal 2007 Form 10-K. Critical accounting policies and estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies and estimates for us include: (i) revenue recognition, (ii) provisions for excess and obsolete inventory losses, (iii) goodwill and intangible assets, and (iv) income taxes and tax valuation allowances. For additional discussion of our critical accounting policies and estimates, see our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Fiscal 2007 Form 10-K.

Impact of Recently Issued Accounting Pronouncements

As described in “Note B — Recent Accounting Pronouncements” in our Notes to Condensed Consolidated Financial Statements included in this Form 10-Q/A, there are accounting pronouncements that have recently been issued but have not yet been implemented by us. Note B in this Form 10-Q/A describes the potential impact that these pronouncements are expected to have, if known, on our financial position, results of operations and cash flows.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

In the normal course of doing 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.

Exchange Rate Risk

We use foreign exchange contracts to hedge both balance sheet and off-balance sheet future foreign currency commitments. Generally, these foreign exchange contracts offset foreign currency denominated inventory and purchase commitments from suppliers; accounts receivable from, and future committed sales to, customers; and inter-company loans. We believe the use of foreign currency financial instruments reduces the risks that arise from doing business in international markets. At December 28, 2007, we had open foreign exchange contracts with a notional amount of \$63.6 million (\$52.5 million at June 29, 2007), of which \$19.3 million (\$15.1 million at June 29, 2007) were designated as Statement 133 hedges and \$44.3 million (\$37.4 million at June 29, 2007) were not designated as Statement 133 hedges. At December 28, 2007, contract expiration dates range from less than one month to 1.5 months with a weighted average contract life of approximately one month. More specifically, the foreign exchange contracts designated as Statement 133 hedges have been used primarily to hedge currency exposures from customer orders denominated in non-functional currencies currently in backlog.

As of December 28, 2007, we estimated that a pre-tax gain of less than \$0.1 million would be reclassified into earnings from comprehensive income within the next 1.5 months related to these cash flow hedges.

We immediately recognize in earnings any portion of a derivative’s change in fair value which is assessed as ineffective in accordance with the provisions of Statement 133. Amounts included in our Statements of Operations in the first two quarters of fiscal 2008 and the first two quarters of fiscal 2007 representing hedge ineffectiveness were not significant.

We recognized less than \$0.1 million, in our Statements of Operations in the quarter and two quarters ended December 28, 2007 and December 29, 2006 related to the component of the derivative instruments’ gain or loss excluded from the assessment of hedge ineffectiveness. All of these derivatives were recorded at their fair value on the balance sheet in accordance with Statement 133.

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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% adverse change in currency exchange rates would have an impact of \$5.7 million on the fair value of such instruments.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term investments and bank debt.

Exposure on Short-term Investments: We do not use derivative financial instruments in our short-term investment portfolio. We invest in high-credit quality issues and, by policy, limit the amount of credit exposure to any one issuer and country. The portfolio includes only marketable securities with active secondary or resale markets to ensure portfolio liquidity. The portfolio is also diversified by maturity to ensure that funds are readily available as needed to meet our liquidity needs. This policy reduces the potential need to sell securities in order to meet liquidity needs and therefore the potential effect of changing market rates on the value of securities sold.

We had \$83.0 million in cash, cash equivalents and short-term investments at December 28, 2007. Short-term investments totaled \$10.0 million at December 28, 2007. At December 28, 2007, short-term investments had contractual maturities ranging from 1 month to 8 months.

The primary objective of our short-term investment activities is to preserve principal while maximizing yields, without significantly increasing risk. Our short-term investments are at fixed interest rates; therefore, changes in interest rates will not generate a gain or loss on these investments unless they are sold prior to maturity. Actual gains and losses due to the sale of our short-term investments prior to maturity have been not been significant. The average number of days to maturity for short-term investments held at December 28, 2007 was 58 days and had an average yield of 5.25% per annum. The average number of days to maturity for our cash equivalents at December 28, 2007 was 4 days and had an average yield of 4.9% per annum. The potential loss in fair value resulting from a hypothetical 10% decrease in quoted market price was approximately \$1.0 million at December 28, 2007.

As of December 28, 2007, unrealized gains on short-term investments were less than \$0.1 million. The investments have been recorded at fair value on our balance sheet.

Exposure on Borrowings: Any borrowings under the revolving portion of our credit facility will be at an interest rate of the bank's prime rate or LIBOR plus 2%. As of December 28, 2007 we had \$27.9 million of available credit. All of our borrowings at December 28, 2007 bear interest at fixed rates. A hypothetical 10% change in interest rates would not have a material impact on our financial position, results of operations or cash flows.

Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures: Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) (the "Exchange Act"), as of the end of the period covered by this Quarterly Report on Form 10-Q. Subsequent to the end of this period, the Company identified certain accounting errors that resulted in a restatement to the Company's interim consolidated financial statements for the first three quarters of fiscal 2008 (the quarters ended March 28, 2008, December 28, 2007 and September 28, 2007) and the fiscal years ended June 29, 2007, June 30, 2006, and July 1, 2005. During management's evaluation of effectiveness of the Company's internal control over financial reporting as of June 27, 2008, two material weaknesses, relating to the accounting for certain project cost variances and reconciliation of certain balance sheet accounts, were identified as described in our amended fiscal 2007 Form 10-K. The Chief Executive Officer and Chief Financial Officer have concluded that these material weaknesses existed as of the end of the period covered by this Quarterly Report on Form 10-Q, and as such, our disclosure controls and procedures were not effective.

Changes in Internal Control over Financial Reporting - Plan for Remediation of Material Weaknesses: As discussed above, two material weaknesses were identified during management's evaluation of the effectiveness of the Company's internal control over financial reporting as of June 27, 2008. As such, the Company's plan for remediation of these material weaknesses, as described in our amended fiscal 2007 Form 10-K, had not yet been initiated and there were no changes in our internal controls over financial reporting for the period covered by this Quarterly Report that materially affected our internal control over financial reporting.

PART II. OTHER INFORMATION**Item 1. Legal Proceedings.**

Descriptions of our legal proceedings are contained in Part I, Item 1, Financial Statements — Notes to Condensed Consolidated Financial Statements — “Note Q.”

Item 1A. Risk Factors.

Investors should carefully review and consider the information regarding certain factors which could materially affect our business, operating results, cash flows and financial condition set forth under Item 1A. “Risk Factors” in our Fiscal 2007 Form 10-K/A. We do not believe that there have been any material changes to the risk factors previously disclosed in our Fiscal 2007 Form 10-K/A, although we may disclose changes to such factors or disclose additional factors from time to time in our future filings with the SEC. Additional risks, such as the relative proportions of higher margin and lower margin products sold during any quarter, increased costs for Sarbanes-Oxley compliance and for continuing integration of our merged operations and systems and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Item 4. Submission of Matters to a Vote of Security Holders.

Our 2007 Annual Meeting of Shareholders was held on November 14, 2007. A total of 55,404,169 of our outstanding shares were represented in person or by proxy at the meeting. This represented approximately 95% of our shares issued, outstanding and entitled to be voted at the 2007 Annual Meeting of Shareholders.

Proposal 1: Shareholders elected four Class A nominees and five Class B nominees to our Board of Directors for a one-year term expiring at the Annual Meeting of Shareholders in 2008, or until their successors are elected and qualified. The vote tabulation for individual directors was:

	Number of Shares	
	For	Withheld
Class A Nominee		
Charles D. Kissner	47,176,820	8,227,349
William A. Hasler	52,170,427	3,233,742
Clifford H. Higgerson	55,142,521	261,648
Edward F. Thompson	55,130,501	273,668
Class B Nominee		
Guy M. Campbell	32,913,377	—
Eric C. Evans	32,913,377	—
Howard L. Lance	32,913,377	—
Dr. Mohsen Sohi	32,913,377	—
Dr. James C. Stoffel	32,913,377	—

Proposal 2: To ratify our Audit Committee’s appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ending June 27, 2008.

Number of Shares		
For	Against	Abstain
55,362,802	18,142	23,225

Proposal 2 was approved by our shareholders.

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Item 6. Exhibits.

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

<u>Exhibit Number</u>	<u>Description</u>
(15)	Letter Regarding Unaudited Interim Financial Information.
(31.1)	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
(31.2)	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
(32.1)	Section 1350 Certification of Chief Executive Officer.
(32.2)	Section 1350 Certification of Chief Financial Officer.

SIGNATURE

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

HARRIS STRATEX NETWORKS, INC.
(Registrant)

Dated: September 25, 2008

By: /s/ Sarah A. Dudash
Sarah A. Dudash
Vice President and Chief Financial Officer
(principal financial officer and duly authorized officer)

EXHIBIT INDEX

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(32.1)	Section 1350 Certification of Chief Executive Officer.
(32.2)	Section 1350 Certification of Chief Financial Officer.

The Board of Directors and Shareholders of Harris Stratex Networks, Inc.

We are aware of the incorporation by reference in the Registration Statement (Form S-8 No. 333-140442) of Harris Stratex Networks, Inc. dated February 5, 2007 of our reports dated November 2, 2007 (except for Note C, as to which the date is September 12, 2008) and February 1, 2008 (except for Note C, as to which the date is September 12, 2008) relating to the unaudited condensed consolidated interim financial statements of Harris Stratex Networks, Inc. that are included in its Forms 10-Q/A for the quarters ended September 28, 2007 and December 28, 2007.

/s/ Ernst & Young LLP
Raleigh, North Carolina
September 22, 2008

CERTIFICATION

I, Harald J. Braun, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of Harris Stratex Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 25, 2008

/s/ Harald J. Braun

Name: Harald J. Braun

Title: President and Chief Executive Officer (Principal Executive Officer)

CERTIFICATION

I, Sarah A. Dudash, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of Harris Stratex Networks, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: September 25, 2008

/s/ Sarah A. Dudash

Name: Sarah A. Dudash

Title: Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Certification
Pursuant to Section 1350 of Chapter 63 of Title 18 of the
United States Code as Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Quarterly Report on Form 10-Q/A of Harris Stratex Networks, Inc. ("Harris Stratex") for the fiscal quarter ended December 28, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Harald J. Braun, President and Chief Executive Officer of Harris Stratex, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Harris Stratex as of the dates and for the periods expressed in the Report.

Dated: September 25, 2008

/s/ Harald J. Braun

Name: Harald J. Braun

Title: President and Chief Executive Officer

Certification
Pursuant to Section 1350 of Chapter 63 of Title 18 of the
United States Code as Adopted Pursuant to Section 906
of the Sarbanes-Oxley Act of 2002

In connection with the filing of the Quarterly Report on Form 10-Q/A of Harris Stratex Networks, Inc. ("Harris Stratex") for the fiscal quarter ended December 28, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Sarah A. Dudash, Vice President and Chief Financial Officer of Harris Stratex, hereby certifies, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. §1350, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Harris Stratex as of the dates and for the periods expressed in the Report.

Dated: September 25, 2008

/s/ Sarah A. Dudash

Name: Sarah A. Dudash

Title: Vice President and Chief Financial Officer