Harris Stratex Networks, Inc.
Form 10-Q
May 06, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended March 28, 2008

or

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

For the transition period from _____ to _____

Commission File Number 001-33278
HARRIS STRATEX NETWORKS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5961564**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
637 Davis Drive **Morrisville, North Carolina**	**27560**
(Address of principal executive offices)	(Zip Code)

(919) 767-3250
(Registrant s telephone number, including area code)

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

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

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

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

Class of Stock	**Shares Outstanding as of May 2, 2008**
Class A Common Stock, par value $0.01 per share	25,556,002
	32,913,377

Class B Common Stock, par value $0.01 per share	
Total shares of common stock outstanding	58,469,379

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FORM 10-Q
For the Quarter Ended March 28, 2008
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This Quarterly Report on Form 10-Q contains trademarks of Harris Stratex Networks, Inc.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Quarter Ended		Three Quarters Ended	
(In millions, except per common share amounts)	**March 28, 2008**	**March 30, 2007**	**March 28, 2008**	**March 30, 2007**
Revenue from product sales and services:				
Revenue from external product sales	$ 147.3	$ 105.6	$ 444.8	$ 270.0
Revenue from product sales with Harris Corporation	1.5	2.3	6.4	3.7
Total revenue from product sales	148.8	107.9	451.2	273.7
Revenue from services	29.4	31.1	80.4	60.1
Total revenue from product sales and services	178.2	139.0	531.6	333.8
Cost of product sales and services:				
Cost of external product sales	(101.4)	(76.5)	(306.3)	(178.9)
Cost of product sales with Harris Corporation	(0.6)	(1.7)	(4.2)	(4.1)
Total cost of product sales	(102.0)	(78.2)	(310.5)	(183.0)
Cost of services	(21.4)	(23.1)	(59.8)	(44.7)
Cost of sales billed from Harris Corporation		(0.5)	(4.6)	(3.2)
Amortization of purchased technology	(1.8)	(1.2)	(5.3)	(1.2)
Total cost of product sales and services	(125.2)	(103.0)	(380.2)	(232.1)
Gross margin	53.0	36.0	151.4	101.7
Research and development expenses	(11.5)	(11.1)	(34.8)	(26.8)
Selling and administrative expenses	(28.7)	(26.1)	(90.0)	(57.5)
Selling and administrative expenses with Harris Corporation	(1.7)	(1.6)	(5.2)	(4.7)
Total research, development, selling and administrative expenses	(41.9)	(38.8)	(130.0)	(89.0)
Amortization of identifiable intangible assets	(1.9)	(3.0)	(5.6)	(3.0)
Acquired in-process research and development		(15.3)		(15.3)
Restructuring charges		(1.3)	(8.4)	(2.0)
Corporate allocations expense from Harris Corporation		(0.3)		(3.7)
Operating income (loss)	9.2	(22.7)	7.4	(11.3)
Interest income	0.3	0.9	1.4	1.2
Interest expense	(0.7)	(1.1)	(2.2)	(1.5)
Income (loss) before provision for income taxes	8.8	(22.9)	6.6	(11.6)
Provision for income taxes	(1.5)	(0.3)	(1.1)	(1.0)

Net income (loss)	$ 7.3	$ (23.2)	$ 5.5	$ (12.6)
Net income (loss) per common share of Class A and Class B common stock (1):				
Basic	$ 0.12	$ (0.58)	$ 0.09	$ (0.93)
Diluted(2)	$ 0.09	$ (0.58)	$0.05	$ (0.93)
Basic weighted average shares outstanding (3)	58.4	40.3	58.4	13.5
Diluted weighted average shares outstanding (3)	58.7	40.3	58.9	13.5

(1) The net income (loss) per common share amounts are the same for Class A and Class B because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation.

(2) For the quarter and three quarters ended March 28, 2008, the calculations of diluted earnings per share include a potential deduction to net income of $2.1 million and $2.7 million for the assumed after-tax effect of the change in fair value of warrants using the treasury stock method

(see Note P).

(3) 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 calculations. Basic and diluted weighted average shares outstanding are calculated based on the daily outstanding shares, reflecting the fact that no shares were outstanding prior to January 26, 2007.

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions, except share amounts)	March 28, 2008	June 29, 2007
Assets		
Current Assets		
Cash and cash equivalents	$ 97.0	$ 69.2
Short-term investments and available for sale securities	3.4	20.4
Receivables	199.0	185.3
Unbilled costs	35.7	36.9
Inventories	125.3	135.7
Deferred income taxes	6.5	4.1
Other current assets	17.5	21.7
Total current assets	484.4	473.3
Long-Term Assets		
Property, plant and equipment	74.4	80.0
Goodwill	315.4	323.6
Identifiable intangible assets	133.2	144.5
Capitalized software	9.6	9.7
Non-current portion of notes receivable	3.4	5.3
Non-current deferred income taxes		0.5
Other assets	3.0	1.2
Total long-term assets	539.0	564.8
Total assets	$ 1,023.4	$ 1,038.1
Liabilities and Shareholders Equity		
Current Liabilities		
Short-term debt	$	$ 1.2
Current portion of long-term debt	6.0	10.7
Accounts payable	81.8	84.7
Compensation and benefits	12.5	11.5
Other accrued items	44.8	44.7
Advance payments and unearned income	26.7	22.3
Income taxes payable	3.6	6.8
Restructuring liabilities	6.7	10.8
Current portion of long-term capital lease obligation to Harris Corporation	1.6	3.1
Due to Harris Corporation	20.5	17.2
Total Current Liabilities	204.2	213.0
Long-Term Liabilities		
Long-term debt	5.0	8.8
Long-term portion of capital lease obligation to Harris Corporation	1.6	2.8
Restructuring and other long-term liabilities	6.2	11.8
Redeemable preference shares	8.3	8.3

Warrants	0.6	3.9
Deferred income taxes	21.2	31.5
Total Liabilities	247.1	280.1
Commitments and contingencies		
Shareholders Equity		
Preferred stock, $0.01 par value; 50,000,000 shares authorized; none issued		
Common stock, Class A, $0.01 par value; 300,000,000 shares authorized; issued and outstanding 25,554,877 shares at March 28, 2008 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 March 28, 2008 and June 29, 2007	0.3	0.3
Additional paid-in-capital	786.9	778.3
Accumulated deficit	(15.4)	(20.9)
Accumulated other comprehensive income	4.2	
Total Shareholders Equity	776.3	758.0
Total Liabilities And Shareholders Equity	$ 1,023.4	$ 1,038.1

See accompanying Notes to Condensed Consolidated Financial Statements.

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

(In millions)	Three Quarters Ended March 28, 2008	March 30, 2007
Operating Activities		
Net income (loss)	$ 5.5	$ (12.6)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of identifiable intangible assets acquired in the Stratex acquisition	10.9	19.4
Other non-cash charges related to the Stratex acquisition		5.4
Depreciation and amortization of property, plant and equipment and capitalized software	15.2	12.2
Non-cash stock-based compensation expense	5.3	1.0
Non-cash charges for restructuring and inventory write-downs	7.8	
Decrease in fair value of warrants	(3.2)	
Deferred income tax (benefit) expense	(0.2)	1.0
Changes in operating assets and liabilities:		
Receivables	(11.7)	2.7
Unbilled costs and inventories	8.0	(32.0)
Accounts payable and accrued expenses	(1.4)	(0.7)
Advance payments and unearned income	4.3	4.8
Due to Harris Corporation	4.6	(3.7)
Decrease in restructuring liabilities and other	(9.7)	(9.0)
Net cash provided by (used in) operating activities	35.4	(11.5)
Investing Activities		
Cash acquired from the Stratex acquisition, net of acquisition costs of $12.7 million		20.4
Purchases of short-term investments and available for sale securities	(8.3)	(33.2)
Sales of short-term investments and available for sale securities	25.3	17.8
Additions of property, plant and equipment	(6.3)	(4.4)
Additions of capitalized software	(7.9)	(2.8)
Net cash provided by (used in) investing activities	2.8	(2.2)
Financing Activities		
Decrease in short-term debt	(1.2)	
Proceeds from issuance of redeemable preference shares		8.3
Payments on long-term debt	(8.4)	(2.6)
Proceeds from issuance of Class B common stock to Harris Corporation		26.9
Payments on long-term capital lease obligation to Harris Corporation	(3.2)	
Proceeds from exercise of former Stratex stock options	1.5	1.4
Registration costs for Class A common stock issued in Stratex acquisition		(1.1)
Proceeds from exercise of former Stratex warrants		0.2
Net cash and other transfers from Harris Corporation prior to the Stratex acquisition		24.1

Net cash (used in) provided by financing activities	(11.3)	57.2
Effect of exchange rate changes on cash and cash equivalents	0.9	(2.9)
Net increase in cash and cash equivalents	27.8	40.6
Cash and cash equivalents, beginning of year	69.2	13.8
Cash and cash equivalents, end of period	$ 97.0	$ 54.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 28, 2008
(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 March 28, 2008 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, 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 for the fiscal year ended June 29, 2007 (Fiscal 2007 Form 10-K).

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 our historical financial statements. 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 $0.3 million and $3.7 million for these general corporate expenses from Harris during the quarter and three quarters ended March 30, 2007. These costs represented approximately 6.1% and 9.4% of the total cost of these allocated services in the quarter and three quarters ended March 30, 2007. 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.

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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 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 N Income Taxes*, for additional information relating to our accounting for FIN 48 and income taxes.

Fair Value Measurements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (Statement 157). Statement 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. Statement 157 applies under other accounting pronouncements that require fair value measurement in which the FASB concluded that fair value was the relevant measurement, but does not require any new fair value measurements. Statement 157 is effective for financial assets and financial liabilities for fiscal years beginning after November 15, 2007, which for us will be our fiscal 2009. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, Effective Date of FASB Statement No. 157, which defers the effective date of Statement 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, which for us will be our fiscal 2010. We are currently evaluating the impact Statement 157 may have on our financial position, results of operations and cash flows.

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.

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Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (Statement 161). Statement 161 applies to all derivative instruments, including bifurcated derivative instruments (and to nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of FASB Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133)) and related hedged items accounted for under Statement 133. Statement 161 amends and expands the disclosure requirements of Statement 133 to provide greater transparency as to (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. To meet those objectives, Statement 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about the volume of derivative activity and fair value amounts of, and gains and losses on, derivative instruments including location of such amounts in the financial statements, and disclosures about credit-risk-related contingent features in derivative agreements. Statement 161 is effective for fiscal years and interim periods that begin after November 15, 2008, which for us will be the third quarter of our fiscal 2009. We are currently evaluating the impact Statement 161 may have on our financial position, results of operations and cash flows.

Note C Short-Term Investments and Available for Sale Securities

Short-term investments and available for sale securities as of March 28, 2008 consisted of the following:

	March 28, 2008			
	Cost	Gross Unrealized Gain	Gross Unrealized Loss	Market Value
	(In millions)			
Certificates of deposit	$ 0.6	$	$	$ 0.6
Commercial paper	1.5			1.5
Corporate notes	1.3			1.3
Total short-term investments and available for sale securities	$ 3.4	$	$	$ 3.4

Our short-term investments and available for sale securities have maturity dates of less than one year, with a weighted average maturity of 108 days.

Note D Accumulated Other Comprehensive Income (Loss) and Comprehensive Income (Loss)

The changes in components of our accumulated other comprehensive income (loss) during the three quarters ended March 28, 2008 and March 30, 2007 were as follows:

	Foreign Currency Translation	Hedging Derivatives	Short-Term Investments and Available for Sale Securities	Total Accumulated Other Comprehensive Income (Loss)
		(In millions)		
Balance at June 29, 2007	$	$	$	$
Changes in accumulated other comprehensive income (loss)	4.9	(0.7)		4.2

Balance at March 28, 2008	$ 4.9	$ (0.7)	$	$ 4.2
Balance at June 30, 2006	$ (1.5)	$ 0.1	$	$ (1.4)
Changes in accumulated other comprehensive income (loss)	(4.1)	(0.2)		(4.3)
Balance at March 30, 2007	$ (5.6)	$ (0.1)	$	$ (5.7)

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Total comprehensive income (loss) for the quarters and three quarters ended March 28, 2008 and March 30, 2007 is comprised of the following:

	Quarter Ended		Three Quarters Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(In millions)			
Net income (loss)	$ 7.3	$ (23.2)	$ 5.5	$ (12.6)
Other comprehensive income (loss):				
Foreign currency translation	(0.9)	(0.8)	4.9	(4.1)
Net unrealized loss on hedging activities	(0.7)	(0.2)	(0.7)	(0.2)
Total comprehensive income (loss)	$ 5.7	$ (24.2)	$ 9.7	$ (16.9)

Note E Receivables

Our receivables are summarized below:

	March 28, 2008	June 29, 2007
	(In millions)	
Accounts receivable	$ 203.3	$ 190.5
Notes receivable due within one year net	5.2	3.3
	208.5	193.8
Less allowances for collection losses	(9.5)	(8.5)
	$ 199.0	$ 185.3

Note F Inventories

Our inventories are summarized below:

	March 28, 2008	June 29, 2007
	(In millions)	
Finished products	$ 59.5	$ 52.9
Work in process	31.3	28.6
Raw materials and supplies	61.2	68.4
	152.0	149.9
Inventory reserves	(26.7)	(14.2)
	$ 125.3	$ 135.7

During the second quarter of fiscal 2008, we recorded a total of $3.7 million for inventory markdowns which are classified in Cost of product sales on the Condensed Consolidated Statements of Operations (Unaudited) during the three quarters ended March 28, 2008 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 K).

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 three quarters ended March 28, 2008, 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 three quarters ended March 28, 2008.

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Note G Property, Plant and Equipment

Our property, plant and equipment are summarized below:

	March 28, 2008	June 29, 2007
	(In millions)	
Land	$ 1.3	$ 1.3
Buildings	29.0	30.8
Software developed for internal use	7.8	3.0
Machinery and equipment	121.6	123.3
	159.7	158.4
Less allowances for depreciation and amortization	(85.3)	(78.4)
	$ 74.4	$ 80.0

Depreciation and amortization expense related to plant and equipment, including software amortization, was $5.1 million and $4.3 million during the quarters ended March 28, 2008 and March 30, 2007, and $13.1 million and $8.7 million in the three quarters ended March 28, 2008 and March 30, 2007.

Note H Credit Facility and Debt

Our debt consisted of the following at March 28, 2008 and June 29, 2007:

	March 28, 2008	June 29, 2007
	(In millions)	
Credit Facility with Bank:		
Term Loan A	$ 1.0	$ 5.7
Term Loan B	10.0	13.8
Other short-term notes		1.2
Total	11.0	20.7
Less other short-term notes		(1.2)
Less current portion	(6.0)	(10.7)
Long-term debt	$ 5.0	$ 8.8

As part of the Stratex acquisition, we assumed Stratex s existing credit facility 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 ($11.0 million as of March 28, 2008) and any usage under the revolving credit portion which includes unexpired standby letters of credit ($8.6 million as of March 28, 2008) and any short-term borrowings (none as of March 28, 2008). The Credit Facility is unsecured. The fair value of our debt approximates book values as of March 28, 2008.

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 March 28, 2008 we were in compliance with these financial covenants.

We are currently negotiating a new credit facility to replace the current facility. Commitments have been received from two commercial banks for a $120 million revolving credit facility with an initial committed amount of $70 million. The existing lender has provided one of the commitment letters. We have negotiated the general terms and conditions of the new facility with the banks and are currently finalizing the loan agreement. To allow sufficient time for finalization of the loan documentation for the new facility, the expiry date of the current facility has been extended to July 29, 2008 by an amendment dated April 30, 2008. As a condition of the new facility, the remaining term debt balance will be repaid. However, all standby letters of credit issued by the current lender will remain outstanding.

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As of March 28, 2008, our future principal payment obligations on long-term debt under the current facility were as follows:

	Years Ending in June (In millions)
2008	$ 2.3
2009	5.0
2010	3.7
Total	$ 11.0

We have other uncommitted short-term lines of credit aggregating $0.2 million from various international banks available on March 28, 2008. 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 I Accrued Warranties

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 (Unaudited), during the three quarters ended March 28, 2008 and March 30, 2007 were as follows:

	Three Quarters Ended	
	March 28, 2008	March 30, 2007
	(In millions)	
Balance as of the beginning of the year	$ 5.6	$ 3.9
Acquisition of Stratex accrued warranties on January 26, 2007		3.5
Warranty provision for revenue recorded during the period	5.4	1.5
Settlements made during the period	(6.1)	(2.5)
Other adjustments to liability, including foreign currency translation during the period	0.1	(0.1)
Balance as of the end of the period	$ 5.0	$ 6.3

Note J Warrants

As part of the Stratex acquisition, we assumed warrants to purchase shares of our Class A common stock. As of March 28, 2008, 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 $1.19 and $7.43 on March 28, 2008 and June 29, 2007, determined based on the Black-Scholes-Merton model with the assumptions listed in the table below.

	March 28, 2008	June 29, 2007
Dividend yield	0%	0%
Expected volatility	57.2%	43.1%
Risk-free interest rate	1.52%	4.91%
Expected holding period	0.75 year	1.25 years

As a result of recording these outstanding warrants at fair value at March 28, 2008, we recorded the change in fair value during the quarter and three quarters ended March 28, 2008 of $2.5 million and $3.2 million as decreases to selling and administrative expenses on our Condensed Consolidated Statements of Operations (Unaudited). During the three quarters ended March 28, 2008, there were no warrants exercised.

Note K Restructuring Activities

During the three quarters ended March 28, 2008, 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,

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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 first three 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 three quarters of fiscal 2008 primarily consisted of retention, severance and other benefits totaling $3.4 million. Additionally, during the first three quarters of fiscal 2008 we 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 our Condensed Consolidated Balance Sheets (Unaudited). We also recorded an impairment of $2.3 million in restructuring charges during the first three fiscal quarters of 2008 relating to the reduction in fair value of ICMS tax recoverable in Brazil. These charges to restructuring in the first three 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.

During 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 U.S. facilities. During the three quarters ended March 28, 2008, we made payments of $2.0 million on these leases, which reduced the liability by $1.5 million, net of $0.5 million in interest expense. Also during the three quarters ended March 28, 2008, 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.

The information in the following table summarizes our restructuring activity during the quarter ended March 28, 2008 and the remaining restructuring liability as of March 28, 2008.

	Severance and Benefits	Facilities and Other	Total
		(In millions)	
Restructuring liability at June 29, 2007	$ 7.8	$ 10.8	$ 18.6
Provision in the three quarters ended March 28, 2008	3.4	5.6	9.0
Release of accrual to statement of operations in the three quarters ended March 28, 2008	(0.6)		(0.6)
Amount credited to goodwill in the three quarters ended March 28, 2008		(1.1)	(1.1)
Other adjustments to liability, including foreign currency translation during the period	0.6		0.6
Non-cash charges in the three quarters ended March 28, 2008		(4.1)	(4.1)
Cash payments in the three quarters ended March 28, 2008	(7.7)	(2.4)	(10.1)
Restructuring liability at March 28, 2008	$ 3.5	$ 8.8	$ 12.3
Current portion of restructuring liability at March 28, 2008	$ 3.5	$ 3.2	$ 6.7
Long-term portion of restructuring liability at March 28, 2008		5.6	5.6
Total restructuring liability at March 28, 2008	$ 3.5	$ 8.8	$ 12.3

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Our fiscal year 2007 restructuring plans are expected to be fully implemented by June 27, 2008. The following table summarizes our costs incurred through March 28, 2008 for our fiscal 2007 restructuring plans:

	Total Costs Incurred through June 29, 2007	Total Costs Incurred During the Three Quarters Ended March 28, 2008	Cumulative Costs Incurred through March 28, 2008	Estimated Additional Costs to be Incurred	Total Restructuring Costs Expected to be Incurred
			(In millions)		
North America Microwave:					
Severance and benefits	$ 5.1	$ 2.8	$ 7.9	$ 0.3	$ 8.2
Facilities and other		3.2	3.2		3.2
Total North America Microwave	$ 5.1	$ 6.0	$ 11.1	$ 0.3	$ 11.4
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	$ 4.2	$ 2.4	$ 6.6	$	$ 6.6
Totals	$ 9.3	$ 8.4	$ 17.7	$ 0.3	$ 18.0

Note L Share-Based Compensation

Compensation expense for share-based awards was $2.0 million and $1.4 million for the quarters ended March 28, 2008 and March 30, 2007. Compensation expense for share-based awards was $6.3 million and $2.1 million for the three quarters ended March 28, 2008 and March 30, 2007. Amounts were included in our Condensed Consolidated Statements of Operations (Unaudited) as follows:

	Quarter Ended		Three Quarters Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
			(In millions)	
Cost of product sales and services	$ 0.3	$ 0.1	$ 0.9	$ 0.1
Research and development expenses	0.4	0.5	1.1	0.5
Selling and administrative expenses	1.3	0.8	4.3	1.5
Total compensation expense	$ 2.0	$ 1.4	$ 6.3	$ 2.1

Grants to employees under our 2007 Stock Equity Plan during the quarter ended March 28, 2008 consisted of 7,580 stock option grants, 43,029 shares of restricted stock and 1,220 performance share awards. Grants to employees under

our 2007 Stock Equity Plan during the three quarters ended March 28, 2008 consisted of 20,050 stock option grants, 43,029 shares of restricted stock and 6,900 performance share awards. The fair value of option grants was estimated on the date of grant using the Black-Scholes-Merton option pricing model which used the following weighted average assumptions: expected volatility of 55.5%; expected dividend yield of 0.0%; and expected life in years of 5.875.

Upon the exercise of stock options, we issued 35,227 and 120,592 shares during the quarter and three quarters ended March 28, 2008.

Note M Business Segments

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 three quarters in the period ended March 28, 2008, we had one customer in Africa (Mobile Telephone Networks or MTN) that accounted for 16% and 13% of our total revenue.

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

	Quarter Ended		Three Quarters Ended	
	March 28, 2008	March 30, 2007	March 28, 2008	March 30, 2007
	(In millions)			
Revenue				
North America Microwave	$ 56.9	$ 48.9	$ 177.3	$ 157.5
International Microwave	117.1	84.9	337.1	161.6
Network Operations	4.2	5.2	17.2	14.7
Total Revenue	$ 178.2	$ 139.0	$ 531.6	$ 333.8
Income (Loss) Before Income Taxes				
Segment Operating Income (Loss):				
North America Microwave (1)	$ 3.9	$ 1.3	$ 2.8	$ 9.9
International Microwave (2)	5.6	(24.0)	3.5	(18.2)
Network Operations	(0.3)	0.3	1.1	0.7
Corporate allocations expense from Harris		(0.3)		(3.7)
Net interest expense	(0.4)	(0.2)	(0.8)	(0.3)
Income (loss) before provision for income taxes	$ 8.8	$ (22.9)	$ 6.6	$ (11.6)

(1) During the quarter ended March 28, 2008, we recorded $0.7 million in amortization of developed technology, tradenames, customer relationships, and non-compete agreements, $0.3 million in amortization of the step-up in the fair value of fixed assets related to the acquisition of Stratex, $0.3 million in merger-related

integration charges, and $1.9 million in share-based compensation in our North America Microwave segment.

During the three quarters ended March 28, 2008, we recorded $2.0 million in amortization of developed technology, tradenames, customer relationships, and non-compete agreements, $0.8 million in amortization of the step-up in the fair value of fixed assets related to the acquisition of Stratex, $8.1 million in restructuring charges, $2.4 million in merger related integration charges, $6.0 million in share-based compensation, $1.9 million for inventory markdowns, and $0.9 million for an impaired lease in our North America Microwave segment.

During the quarter and three quarters ended March 30, 2007, we recorded $0.3 million write-off of a portion of the fair value adjustments related to inventory and fixed assets and $0.9 million amortization of developed technology, tradenames, customer relationships, contract backlog and non-competition agreements. Additionally, for the quarter and three quarters ended March 30, 2007 we recorded $1.3 million and $2.3 million of charges related principally to restructuring and integration activities undertaken in connection with the merger in our North America Microwave segment.

(2) During the quarter ended March 28, 2008, we recorded $3.0 million in amortization of developed

technology, tradenames, customer relationships, and non-compete agreements, $0.4 million in amortization of the step-up in the fair value of fixed assets related to the acquisition of Stratex, $0.6 million in merger related integration charges, and $0.1 million in share-based compensation in our International Microwave segment.

During the three quarters ended March 28, 2008, we recorded $8.9 million in amortization of developed technology, tradenames, customer relationships, and non-compete agreements, $1.3 million in amortization of the step-up in the fair value of fixed assets related to the acquisition of Stratex, $0.3 million in restructuring charges, $4.5 million in merger related

integration charges, and $0.3 million in share-based compensation in our International Microwave segment and $1.8 million for inventory markdowns.

During the quarter and three quarters ended March 30, 2007, we recorded $15.3 million write off of in-process research and development, $5.6 million write-off of a portion of the fair value adjustments related to inventory and fixed assets, $3.2 million amortization of developed technology, tradenames, customer relationships, contract backlog and non-competition agreements, and $2.2 million of charges related to integration activities undertaken in connection with the merger in our International Microwave segment.

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Note N Income Taxes

The income tax expense reflects our pre-tax income and is based on our estimated fiscal 2008 annual effective tax rate. The income tax provision on pre-tax income for the quarter and three quarters ended March 28, 2008 was $1.5 million and $1.1 million.

The income tax expense on the pre-tax loss for the quarter and three quarters ended March 30, 2007 was $0.3 million and $1.0 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. The effective tax rate in the quarter and three quarters ended March 30, 2007 was also impacted by favorable tax adjustments recorded in purchase accounting offset by unfavorable carve-out adjustments attributable to MCD.

As of March 28, 2008 and June 29, 2007, we had a liability for unrecognized tax benefits of $27.5 million and $28.1 million for various federal, foreign, and state income tax matters. Unrecognized tax benefits decreased by $0.6 million a majority of which was recorded as a reduction to our valuation allowance. 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 ultimately recognized, they would not have a material impact on our effective tax rate or 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 three quarters ended March 28, 2007. No penalties have been accrued. We accrued less than $0.1 million at June 29, 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 O 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 three quarters ended March 30, 2007, Harris charged us $1.6 million and $4.7 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 three quarters ended March 28, 2008, Harris charged us $1.7 million and $5.2 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 $1.5 million and $2.3 million for the quarters ended March 28, 2008 and March 30, 2007 and $6.4 million and $3.7 million for the three quarters ended March 28, 2008 and March 30, 2007. We also recognized costs associated with related party purchases from Harris of zero and $0.5 million for the quarters ended March 28, 2008 and March 30, 2007 and $4.6 million, and $3.2 million for the three quarters ended March 28, 2008 and March 30, 2007.

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Harris was the primary source of our financing and equity activities through January 26, 2007, the date of the Stratex acquisition. During the three quarters ended March 30, 2007, 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 three quarters ended March 30, 2007 was not significant.

The unpaid amounts billed from Harris are included within Due to Harris Corporation on our Condensed Consolidated Balance Sheets (Unaudited). 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 our Condensed Consolidated Balance Sheets (Unaudited). Total receivables from Harris were $4.2 million and $0.7 million at March 28, 2008 and June 29, 2007. Total payables to Harris were $24.7 million and $17.9 million at March 28, 2008 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 generally accepted accounting principles with an initial lease obligation balance of $5.9 million and the related asset amount is included in property, plant and equipment on our Condensed Consolidated Balance Sheets (Unaudited).

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 three quarters ended March 28, 2008 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 $0.3 million and $1.2 million during the quarter and three quarters ended March 28, 2008.

During the first three quarters of fiscal 2008, we paid Harris $3.2 million under this capital lease obligation resulting from the $1.3 million impairment discussed above and the principal payments. As of March 28, 2008, our total capital lease obligation to Harris was $3.2 million.

Note P Net Income per Share of Class A and Class B Common Stock

We compute net income per share of Class A and Class B common stock in accordance with Statement of Financial Accounting Standards No. 128 Earnings per Share (Statement 128) using the two class method. Under the provisions of Statement 128, basic net income per share is computed using the weighted average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted average number of common shares and, if dilutive, potential common shares outstanding during the period. Potential common shares consist of the incremental common shares issuable upon the exercise of stock options. The dilutive effect of outstanding stock options is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock are substantially similar. However, the holders of Class B common stock have the sole and exclusive right to elect or remove the Class B directors, who currently number five of the nine members of our board of directors. Further, our restated certificate of incorporation cannot be amended or replaced to adversely affect the rights of the holders of Class B common stock or to approve a new issuance of Class B common stock without the approval of the holders of a majority of Class B common stock. At any time each holder may exchange the holder s shares of Class B common stock for an equal number of shares of Class A common stock at the holder s option. Under certain circumstances, each share of Class B common stock will convert automatically into one share of Class A common

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stock. The holders of Class B common stock have the right to preserve their proportionate interest in the company by participating in any issuance of capital stock by the company other than issuances pursuant to stock option or similar employee benefit plan. As a result, and in accordance with EITF 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128,* the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

The following table sets forth the computation of basic and diluted net income per share of Class A and Class B common stock for the quarter and three quarters ended March 28, 2008:

	Quarter Ended March 28, 2008		Three Quarters Ended March 28, 2008	
	(In millions, except per common share amounts)			
	Class A	Class B	Class A	Class B
Basic net income per share:				
Numerator:				
Allocation of undistributed earnings	$ 3.2	$ 4.1	$ 2.4	$ 3.1
Denominator:				
Weighted average common shares outstanding	25.5	32.9	25.5	32.9
Basic net income per share	$ 0.1249	$ 0.1249	$ 0.0949	$ 0.0949
Diluted net income per share:				
Numerator:				
Allocation of undistributed earnings for basic computation	$ 3.2	$ 4.1	$ 2.4	$ 3.1
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	4.1		3.1	
Change in fair value of warrants, net of tax	(2.1)		(2.7)	
Reallocation of undistributed earnings to Class B shares		(1.2)		(1.5)
Allocation of undistributed earnings	5.2	2.9	2.8	1.6
Denominator:				
Number of shares used in basic computation	25.5	32.9	25.5	32.9
Weighted average effect of dilutive securities add:				
Conversion of Class B to Class A common shares outstanding	32.9		32.9	
Stock options	0.2		0.3	
Warrants	0.1		0.2	
Number of shares used in per share computations	58.7	32.9	58.9	32.9
Diluted net income per share	$ 0.0888	$ 0.0888	$ 0.0484	$ 0.0484

We excluded 2.4 million shares for both the quarter and three quarters ended March 28, 2008 attributable to outstanding stock options from the calculation of diluted earnings per share because their inclusion would have been anti-dilutive. The net income per share amounts are the same for Class A and Class B because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Diluted earnings per share is not presented for the quarter and three quarters ended March 30, 2007 due to a net loss in both periods.

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.

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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.

Note R Subsequent Event Transition of Chief Executive Officer

Our Board of Directors has appointed Harald J. Braun as President and Chief Executive Officer of the Company, effective April 8, 2008. Our Class B Directors, joined by all Class A Directors, have also appointed Mr. Braun as a Class B Director. In connection with the appointment of his successor, Guy M. Campbell, who previously had announced his retirement at the end of the current fiscal year, submitted his resignation as President and Chief Executive Officer and a Class B Director, effective April 8, 2008. Mr. Campbell has agreed to remain as a senior advisor and employee of the Company until June 27, 2008.

During the fourth quarter of fiscal 2008, we expect to record a charge of approximately $2.0 million for separation payments, recruiting fees and other related expenses in connection with this management transition.

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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 March 28, 2008, the related condensed consolidated statements of operations for the quarter and three quarters ended March 28, 2008 and March 30, 2007, and the condensed consolidated statements of cash flows for the three quarters ended March 28, 2008 and March 30, 2007. 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.

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, 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.

/s/ Ernst & Young LLP

Raleigh, North Carolina

May 2, 2008

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

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.

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:

	January 26, 2007 (In millions)
Calculation of Allocable Purchase Price	
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	$ 493.1

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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 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

Prior to the merger and the contribution transaction, 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 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.

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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. We believe that our 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 for our business segments 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.

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 $100.4 million in cash, cash equivalents, short-term investments and available for sale securities as of March 28, 2008.

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.

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Quarter Ended March 28, 2008 Compared with Quarter Ended March 30, 2007

Revenue and Net income (Loss)

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$ 178.2	$ 139.0	28.2%
Net income (loss)	$ 7.3	$ (23.2)	N/M
% of revenue	4.1%	N/M	

N/M = Not statistically meaningful

The results for the third quarter of fiscal 2008 include the operations acquired in the Stratex acquisition for the entire period while the results for the third quarter of fiscal 2007 include only the results of Stratex for the months of February and March 2007. Historically, Stratex derived its revenues primarily from international markets.

Our revenue for the third quarter of fiscal 2008 was $178.2 million, an increase of $39.2 million or 28.2%, compared with the third quarter of fiscal 2007. Revenue in the third quarter of fiscal 2008 included $93.6 million from sales of former Stratex products and services, compared with $48.8 million in the third quarter of fiscal 2007. Excluding the impact of the Stratex acquisition, revenue declined $5.6 million, primarily due to a decrease in the International Microwave segment in sales of the former MCD business products and services. The Network Operations segment revenue decreased by $1.0 million in the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007 primarily due to delays in certain customer orders.

Our third quarter fiscal 2008 net income was $7.3 million compared with a net loss of $23.2 million in the third quarter of fiscal 2007. The third quarter fiscal 2008 net income and third quarter fiscal 2007 net loss included the following pre-tax purchase accounting adjustments and other expenses related to the acquisition and integration of Stratex, share-based compensation expense and inventory markdowns:

	Q3 FY 08	Q3 FY 07
	(In millions)	
Write off of in-process research & development	$	$ 15.3
Cost of integration activities undertaken in connection with the merger	0.9	2.2
Amortization of the fair value adjustments related to fixed assets and inventory	0.7	5.9
Amortization of developed technology	1.8	1.2
Amortization of trade names, customer relationships, non-competition agreements and backlog	1.9	3.0
Restructuring charges		1.3
Share-based compensation expense	2.0	1.4
Totals	$ 7.3	$ 30.3

Our net income for the third quarter of fiscal 2008 resulted from the increase in revenue discussed above and the lower amount of charges and expenses related to the Stratex acquisition presented above when compared with the third quarter of fiscal 2007. Net income as a percentage of revenue excluding the charges discussed above increased in the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007 due to the increase in margin generated from the increased revenue, partially offset by comparable expense amounts year over year.

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Gross Margin

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$ 178.2	$ 139.0	28.2%
Cost of product sales and services	$(125.2)	$(103.0)	21.6%
Gross margin	$ 53.0	$ 36.0	47.2%
% of revenue	29.7%	25.9%	

Our third quarter fiscal 2008 gross margin was $53.0 million, or 29.7% of revenue, compared with $36.0 million, or 25.9% of revenue in the third quarter of fiscal 2007. Our third quarter fiscal 2008 gross margin was reduced by $1.8 million of amortization on developed technology, and $0.2 million of amortization of the fair value of adjustments for fixed assets acquired from Stratex. Our third quarter fiscal 2007 gross margin was reduced by $1.2 million of amortization on developed technology and $5.6 million write-off of a portion of the fair value adjustments related to inventory and fixed assets.

After consideration of the purchase accounting adjustments discussed in the previous paragraph, gross margin percentage for the third quarter of fiscal 2008 was flat when compared with the third quarter of fiscal 2007, after consideration of purchase accounting adjustments in both periods. Gross margin percentage continued to be adversely affected by increased freight costs in the third quarter of fiscal 2008 and by the product mix in the International Microwave segment. Our total gross margin increased in the third quarter fiscal 2008 compared with the third quarter of fiscal 2007 primarily due to higher revenue.

Research and Development Expenses

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$178.2	$139.0	28.2%
Research and development expenses	$ 11.5	$ 11.1	3.6%
% of revenue	6.5%	8.0%	

Research and development (R&D) expenses were $11.5 million in the third quarter of fiscal 2008, compared with $11.1 million in the third quarter of fiscal 2007. As a percent of revenue, these expenses decreased from 8.0% in the third quarter of fiscal 2007 to 6.5% in the third quarter of fiscal 2008 due to higher revenue. The increase in R&D expense was attributable to higher spending in the third quarter of fiscal 2008 related to our TRuepoint 6000 development efforts.

Selling and Administrative Expenses

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$178.2	$139.0	28.2%
Selling and administrative expenses	$ 30.4	$ 27.7	9.7%
% of revenue	17.1%	20.0%	

Our third quarter fiscal 2008 selling and administrative (S&A) expenses increased to $30.4 million from $27.7 million in the third quarter of fiscal 2007. As a percentage of revenue, these expenses decreased from 20.0% of revenue in the third quarter of fiscal 2007 to 17.1% of revenue in the third quarter of fiscal 2008. The decline in percentage of revenue during the third quarter of fiscal 2008 was primarily due to a $2.5 million gain on change in fair value of warrants classified in S&A expenses with none recorded in the third quarter of fiscal 2007 and the increase in revenue. The majority of the increase in spending in the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007 came from S&A expenses associated with the former Stratex business. The remainder of the increase

resulted from 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 the

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Sarbanes-Oxley internal control review and attestation process will approximate $3.0 million in fiscal 2008.

Income Taxes

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Income (loss) before income taxes	$ 8.8	$(22.9)	N/M
Income tax provision	$ (1.5)	$ (0.3)	N/M
% of Income (loss) before income taxes	17.0%	(1.3)%	

The income tax expense of $1.5 million for the third quarter of fiscal 2008 reflected our pre-tax income 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 effective tax rate in the quarter ended March 30, 2007 of 1.3% was impacted by favorable tax adjustments recorded in purchase accounting offset by unfavorable carve-out tax adjustments attributable to MCD. A deferred tax liability in the amount of $16.4 million was recognized in accordance with Statement 109 for the difference between the assigned values for purchase accounting purposes and the tax bases of the assets and liabilities acquired as a result of the Stratex acquisition. The offset was recorded as an increase to goodwill.

Discussion of Business Segments

North America Microwave Segment

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$56.9	$48.9	16.4%
Segment operating income	$ 3.9	$ 1.3	200.0%
% of revenue	6.9%	2.7%	

North America Microwave segment revenue increased by $8.0 million or 16.4% from the third quarter of fiscal 2007 to the third quarter of fiscal 2008. Revenue for the third quarters of fiscal 2008 and fiscal 2007 included $6.9 million and $1.4 million from sales of former Stratex products and services. Revenue drivers in the North America Microwave segment included customer demand for increased bandwidth, footprint expansion and the relocation of advanced wireless services to the 2 gigahertz spectrum by mobile operators.

Our third quarter fiscal 2008 operating income was reduced by the following amounts related to the acquisition of Stratex and our restructuring plans: $0.3 million for amortization of the fair value adjustments for fixed assets, $0.7 million for amortization of developed technology, trade names, customer relationships, and non-compete agreements and $0.3 million of integration expenses undertaken in connection with the merger.

Operating income for this segment for the third quarter of fiscal 2007 was reduced by the following amounts related to the acquisition of Stratex: $0.3 million for amortization of a portion of the fair value adjustments related to fixed assets, for $0.9 million amortization of developed technology, tradenames, customer relationships, contract backlog and non-competition agreements and $1.3 million of charges related principally to restructuring and integration activities undertaken in connection with the merger.

During the third quarter of fiscal 2008 we also recorded $1.9 million in share-based compensation expense.in our North America Microwave segment compared with $1.4 million in the third quarter of fiscal 2007. Excluding the impact of the charges discussed above, the operating margin for our North America Microwave segment improved in the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007 due to the higher gross margin generated by the higher revenue, partially offset by comparable levels of expenses.

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International Microwave Segment

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$ 117.1	$ 84.9	37.9%
Segment operating income (loss)	$ 5.6	$ (24.0)	N/M
% of revenue	4.8%	N/M	

International Microwave segment revenue increased by $32.2 million or 37.9% in the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007. Revenue in the third quarters of fiscal 2008 and fiscal 2007 included $86.7 million and $47.4 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 $7.1 million because of our transition to selling the former Stratex products.

International Microwave segment reported an operating income of $5.6 million for the third quarter of fiscal 2008 compared with an operating loss of $24.0 million for the third quarter of fiscal 2007. The operating income for the third quarter of fiscal 2008 reflected the following charges related to the acquisition of Stratex: $0.4 million for amortization of the fair value adjustments for fixed assets, $3.0 million for amortization of developed technology, tradenames, customer relationships, contract backlog and non-compete agreements, and $0.6 million of integration expenses associated with the merger. The operating loss for this segment for the third quarter of fiscal 2007 of $24.0 million included the following amounts related to the acquisition of Stratex: a $15.3 million write-off of in-process research and development, $5.6 million for amortization of a portion of the fair value adjustments related to inventory and fixed assets, $3.2 million amortization of developed technology, tradenames, customer relationships, contract backlog and non-competition agreements, and $2.2 million of charges related principally to integration activities undertaken in connection with the merger.

We also recorded $0.1 million in share-based compensation expense during the third quarter of fiscal 2008 in our International Microwave segment compared with zero in the third quarter of fiscal 2007.

Excluding the impact of the charges discussed above, the operating margin for our International Microwave segment improved in the third quarter of fiscal 2008 compared with the third quarter of fiscal 2007 due to the higher gross margin generated by the higher revenue, partially offset by comparable levels of expenses.

Network Operations Segment

	Q3 FY 08	Q3 FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$ 4.2	$5.2	(19.2%)
Segment operating (loss) income	$(0.3)	$0.3	(200.0%)
% of revenue	(7.1)%	5.8%	

Network Operations segment revenue decreased by 19.2% from the third quarter of fiscal 2007 to the third quarter of fiscal 2008 due to delays in customer orders. Consequently, this segment had an operating loss of $0.3 million in the third quarter of fiscal 2008 compared with operating income of $0.3 million in the third quarter of fiscal 2007.

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Three Quarters Ended March 28, 2008 Compared with the Three Quarters Ended March 30, 2007

Revenue and Net Income (Loss)

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$531.6	$333.8	59.3%
Net income (loss)	$ 5.5	$ (12.6)	N/M
% of revenue	1.0%	N/M	

N/M = Not statistically meaningful
3Qs FY = First three quarters of fiscal year

The results for the first three quarters of fiscal 2008 include the operations acquired in the Stratex acquisition for the entire period while the results for the first three 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 three quarters of fiscal 2008 was $531.6 million, an increase of $197.8 million or 59.3%, compared with the first three quarters of fiscal 2007. Revenue in the first three quarters of fiscal 2008 included $253.3 million from sales of former Stratex products and services compared with $48.8 million in the first three quarters of fiscal 2007. Excluding the impact of the Stratex acquisition, revenue declined $6.7 million, primarily due to a decrease in sales of the former MCD business products and services in the International Microwave segment. The Network Operations segment revenue increased by $2.5 million in the first three quarters of fiscal 2008 compared with the first three fiscal quarters of fiscal 2007, as this segment experienced increased demand for its service assurance solution with Next Generation Network customers.

Our net income for first three quarters fiscal 2008 was $5.5 million compared with a net loss of $12.6 million in the first three quarters of fiscal 2007. The net income in the three quarters ended March 28, 2008 and net loss in the three quarters ended March 30, 2007 included the following purchase accounting adjustments and other expenses related to the acquisition and integration of Stratex, share-based compensation expense and inventory markdowns:

	3Qs FY 08	3Qs FY 07
	(In millions)	
Write-off of in-process research & development	$	$ 15.3
Cost of integration activities undertaken in connection with the merger	6.9	3.9
Amortization of the fair value adjustments related to fixed assets and inventory	2.1	5.9
Amortization of developed technology	5.3	1.2
Amortization of trade names, customer relationships and non-competition agreements and backlog	5.6	3.0
Restructuring charges	8.4	1.3
Lease impairment	0.9	
Share-based compensation expense	6.3	1.1
Inventory markdowns	3.7	
Totals	$ 39.2	$ 31.7

During the three quarters ended March 28, 2008, 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. These restructuring activities were completed during the third quarter

of fiscal 2008.

We recorded an additional $8.4 million of restructuring charges in connection with implementation of these fiscal 2007 plans during the three quarters ended March 28, 2008. 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

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restructuring charges related to the impairment of a lease, $1.4 million relating to leasehold improvements and $2.3 million relating to the reduction in fair value of ICMS tax recoverable in Brazil.

These charges to restructuring in the first three 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.

Gross Margin

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$ 531.6	$ 333.8	59.3%
Cost of product sales and services	$(380.2)	$(232.1)	63.8%
Gross margin	$ 151.4	$ 101.7	48.9%
% of revenue	28.5%	30.5%	

Gross margin for the first three quarters of fiscal 2008 was $151.4 million, or 28.5% of revenue, compared with $101.7 million, or 30.5% of revenue in the first three quarters of fiscal 2007. Gross margin for this first three quarters fiscal 2008 was reduced by $3.7 million for inventory markdowns, $5.3 million for amortization on developed technology and $0.6 million for amortization of the fair value of adjustments for fixed assets acquired from Stratex and $1.5 million of merger integration costs. Gross margin for the first three quarters of fiscal 2007 was reduced by the following amounts related to the acquisition of Stratex: a $5.6 million write-off of a portion of the fair value adjustments related to inventory and fixed assets, and $1.2 million for amortization of developed technology.

Our gross margin percentage in the first three quarters of fiscal 2008 was comparatively lower than the gross margin percentage in the first three 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 three quarters of fiscal 2008. Gross margin percentage continued to be adversely affected by increased freight and service costs in the first three quarters of fiscal 2008.

Research and Development Expenses

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$531.6	$333.8	59.3%
Research and development expenses	$ 34.8	$ 26.8	29.9%
% of revenue	6.5%	8.0%	

Research and development (R&D) expenses were $34.8 million in the first three quarters of fiscal 2008, compared with $26.8 million in the first three quarters of fiscal 2007. As a percent of revenue, these expenses decreased from 8.0% in the first three quarters of fiscal 2007 to 6.5% in the first three quarters of fiscal 2008 due to higher revenue. The majority of the increase in spending in the first three quarters of fiscal 2008 compared with the first three quarters of fiscal 2007 was attributable to the R&D activities acquired from Stratex. The remainder of the increase was attributable to higher spending in the first three quarters of fiscal 2008 related to our TRuepoint 6000 development efforts.

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Selling and Administrative Expenses

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$531.6	$333.8	59.3%
Selling and administrative expenses	$ 95.2	$ 62.2	53.0%
% of revenue	17.9%	18.6%	

Selling and administrative (S&A) expenses for the first three fiscal quarters of fiscal 2008 increased to $95.2 million from $62.2 million in the first three quarters of fiscal 2007. As a percentage of revenue, these expenses decreased from 18.6% of revenue in the first three quarters of fiscal 2007 to 17.9% of revenue in the first three quarters of fiscal 2008 . This decline resulted primarily from a $3.2 million gain on the change in fair value of warrants classified in S&A expenses with no similar adjustment recorded in the third quarter of fiscal 2007. S&A expenses also increased as a result of the increase in revenue. The majority of the increase in spending in the first three quarters of fiscal 2008 compared with the first three 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 for review and attestation of internal control over financial reporting.

Income Taxes

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Income (loss) before income taxes	$ 6.6	$(11.6)	N/M
Income tax provision	$ (1.1)	$ (1.0)	N/M
% of Income (loss) before income taxes	16.7%	(8.6)%	

The income tax provision of $1.1 million for the first three quarters of fiscal 2008 reflected our pre-tax income 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 effective tax rate during the three quarters ended March 30, 2007 of 8.6% was impacted by favorable tax adjustments recorded in purchase accounting offset by unfavorable carve-out tax adjustments attributable to MCD. A deferred tax liability in the amount of $16.4 million was recognized in accordance with Statement 109 for the difference between the assigned values for purchase accounting purposes and the tax bases of the assets and liabilities acquired as a result of the Stratex acquisition. The offset was recorded as an increase to goodwill.

Discussion of Business Segments

North America Microwave Segment

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$177.3	$157.5	12.6%
Segment operating income	$ 2.8	$ 9.9	(71.7)%
% of revenue	1.6%	6.3%	

North America Microwave segment revenue increased by $19.8 million, or 12.6%, from the first three quarters of fiscal 2007 to the first three quarters of fiscal 2008. Revenue for the first three quarters of fiscal 2008 and fiscal 2007 included $19.9 million and $1.4 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

relocation of advanced wireless services to the 2 gigahertz spectrum by mobile operators.

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Operating loss for the first three quarters of fiscal 2008 operating loss was increased by the following amounts related to the acquisition of Stratex: $0.8 million for amortization of the fair value adjustments for fixed assets, $2.0 million for amortization of developed technology, trade names, customer relationships, and non-compete agreements, $8.1 million of restructuring charges, $0.9 million for impairment of a lease agreement and $2.4 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 three quarters fiscal 2008 operating loss was further increased by $1.9 million of inventory markdowns, as discussed above. Operating income for this segment in the first three quarters of fiscal 2007 was reduced by the following amounts related to the acquisition of Stratex: a $0.3 million write-off of a portion of the fair value adjustments for fixed assets, $0.9 million for amortization of developed technology, tradenames, customer relationships and noncompete agreements, and $2.3 million of charges related principally to restructuring and integration activities undertaken in connection with the merger.

The North America Microwave segment operating results also included $6.0 million in share-based compensation expense during the first three quarters of fiscal 2008 compared with $2.1 million in the first three quarters of fiscal 2007.

International Microwave Segment

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$337.1	$161.6	108.6%
Segment operating income (loss)	$ 3.5	$ (18.2)	N/M
% of revenue	1.0%	N/M	

International Microwave segment revenue increased by $175.5 million or 108.6% in the first three quarters of fiscal 2008 compared with the first three quarters of fiscal 2007. Revenue in the first three quarters of fiscal 2008 and fiscal 2007 included $233.4 million and $47.4 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 $10.5 million because of our transition to selling the former Stratex products.

International Microwave segment had operating income of $3.5 million for the first three quarters of fiscal 2008 compared with operating loss of $18.2 million for the first three quarters of fiscal 2007. The operating income for the first three quarters of fiscal 2008 reflected the following charges related to the acquisition of Stratex: $1.3 million for amortization of the fair value adjustments for fixed assets, $8.9 million for amortization of developed technology, tradenames, customer relationships, contract backlog and non-compete agreements, $0.3 million of restructuring charges and $4.5 million of integration expenses associated with the merger. Our first three quarters fiscal 2008 operating income was further reduced by $1.8 million of inventory markdowns. Finally, we absorbed a significant increase in freight and service costs during the first three quarters of fiscal 2008. Operating loss for the first three quarters of fiscal 2007 was increased by the following amounts related to the acquisition of Stratex: a $15.3 million write-off of in-process research and development, $5.6 million for amortization of the fair value adjustments for inventory and fixed assets, $3.2 million for amortization of developed technology, tradenames, customer relationships, contract backlog and noncompete agreements, and $2.2 million of charges related principally to restructuring and integration activities undertaken in connection with the merger.

We also recorded $0.3 million in share-based compensation expense during the first three quarters of fiscal 2008 in our International Microwave segment compared with none in the first three quarters of fiscal 2007.

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Network Operations Segment

	3Qs FY 08	3Qs FY 07	Percentage Increase/(Decrease)
	(In millions, except percentages)		
Revenue	$17.2	$14.7	17.0%
Segment operating income	$ 1.1	$ 0.7	57.1%
% of revenue	6.4%	4.8%	

Network Operations segment revenue increased by 17.0% from the first three quarters of fiscal 2007 to the first three quarters of fiscal 2008. This segment had operating income of $1.1 million in the first three quarters of fiscal 2008 compared with operating income of $0.7 million in the first three quarters of fiscal 2007. Additionally, operating income as a percentage of sales increased to 6.4% in the first three quarters of fiscal 2008 compared with 4.8% in the first three quarters of fiscal 2007. The increase in revenue resulted primarily from an increase in software and license revenue in the first three quarters of fiscal 2008 because of increased demand for our service assurance solution with next generation network customers as a result of new features and functionality in our product offerings. The increase operating income the first three quarters fiscal 2008 was driven by product mix including an increase in higher margin software and license revenue and a decrease in S&A 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 three quarters ended March 30, 2007, Harris charged us $1.6 million and $4.7 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 three quarters ended March 28, 2008, Harris charged us $1.7 million and $5.2 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 $1.5 million and $2.3 million for the quarters ended March 28, 2008 and March 30, 2007 and $6.4 million and $3.7 million for the three quarters ended March 28, 2008 and March 30, 2007. We also recognized costs associated with related party purchases from Harris of zero and $0.5 million for the quarters ended March 28, 2008 and March 30, 2007 and $4.6 million, and $3.2 million for the three quarters ended March 28, 2008 and March 30, 2007.

Harris was the primary source of our financing and equity activities through January 26, 2007, the date of the Stratex acquisition. During the three quarters ended March 30, 2007, 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 three quarters ended March 30, 2007 was not significant.

The unpaid amounts billed from Harris are included within Due to Harris Corporation on our Condensed Consolidated Balance Sheets (Unaudited). Additionally, we have other receivables and payables in the normal course

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of business with Harris. These amounts are netted within Due to Harris Corporation on our Condensed Consolidated Balance Sheets (Unaudited). Total receivables from Harris were $4.2 million and $0.7 million at March 28, 2008 and June 29, 2007. Total payables to Harris were $24.7 million and $17.9 million at March 28, 2008 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 generally accepted accounting principles with an initial lease obligation balance of $5.9 million and the related asset amount is included in property, plant and equipment on our Condensed Consolidated Balance Sheets (Unaudited).

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 three quarters ended March 28, 2008 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 $0.3 million and $1.2 million during the quarter and three quarters ended March 28, 2008.

During the first quarter of fiscal 2008, we paid Harris $3.2 million under this capital lease obligation resulting from the $1.3 million impairment discussed above and the principal payments. As of March 28, 2008, our total capital lease obligation to Harris was $3.2 million.

Liquidity and Capital Resources

Cash Flows

	Three quarters Ended	
	March 28, 2008	March 30, 2007
	(In millions)	
Net cash provided by (used in) operating activities	$ 35.4	$ (11.5)
Net cash provided by (used in) investing activities	2.8	(2.2)
Net cash (used in) provided by financing activities	(11.3)	57.2
Effect of foreign exchange rate changes on cash	0.9	(2.9)
Net increase in cash and cash equivalents	$ 27.8	$ 40.6

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 $27.8 million to $97.0 million during the first three quarters of fiscal 2008. We generated $35.4 million in cash flow from operations, $25.3 million in cash and cash equivalents from the sale of short-term investments and realized proceeds from the exercise of stock options of $1.5 million. These increases to cash and cash equivalents were partially offset by our purchase of short-term investments totaling $8.3 million, $6.3 million in purchases of property, plant and equipment, $7.9 million in additions to capitalized software, the repayment of $1.2 million in short-term debt and principal payments of $8.4 million on long-term debt.

Our cash and cash equivalents increased by $40.6 million to $54.4 million during the first three quarters of fiscal 2007, primarily due to $24.1 million in cash and other transfers from Harris, proceeds from the issuance of $26.9 million of Class B common stock to Harris, $20.4 million in cash acquired from the Stratex acquisition and $17.8 million from the sale of short-term investments and available for sale securities. These increases were partially offset by $4.4 million in purchases of property, plant and equipment, $2.8 million of additions to capitalized software, $33.2 million of purchases of short-term investments and available for sale securities and $11.5 million cash and cash equivalents used in operations.

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We currently believe that existing cash, cash equivalents, short-term investments and available for sale securities, funds generated from operations and access to our credit facility will be sufficient to provide for our anticipated requirements for working capital and capital expenditures for the next 12 months and the foreseeable future. We estimate that approximately $7.0 million of our cash will be used in integration and restructuring activities during the next 12 months. Our total additions of capitalized software and property, plant and equipment for fiscal year 2008 are expected to be in the range of $18 million to $20 million.

We do not anticipate other significant non-operational cash payments during the remainder of fiscal 2008.

There can be no assurance, however, that our business will generate cash flow, or that anticipated operational improvements will be achieved. If we are unable to maintain cash balances or generate sufficient cash flow from operations to service our obligations, we may be required to sell assets, reduce capital expenditures, or obtain financing. If we need to obtain additional financing, we cannot be assured that it will be available on favorable terms, or at all. Our ability to make scheduled principal payments or pay interest on or refinance any future indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions in or affecting the microwave communications market and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

Net Cash Provided by (Used in) Operating Activities

Our net cash and cash equivalents provided by operating activities was $35.4 million in the first three quarters of fiscal 2008 compared with $11.5 million used in operating activities in the first three quarters of fiscal 2007. Operating cash flow in the first three quarters of fiscal 2008 was positively affected by $5.5 million net income, a decrease in unbilled costs and inventories and increases in accounts payable and accrued expenses ($1.4 million), an increase in advance payments and unearned income ($4.3 million) and other cash flow from operations. These increases to operating cash flow were partially offset by an increase of $11.7 million in receivables and a $9.7 million decrease to restructuring liabilities and other during the first three quarters of fiscal 2008.

Net Cash Provided by (Used in) Investing Activities

Our net cash provided by investing activities was $2.8 million in the first three quarters of fiscal 2008 compared with $2.2 million used in investing activities during the first three quarters of fiscal 2007. Net cash used in investing activities in the first three quarters of fiscal 2008 was $8.3 million in purchases of short-term investments, $7.9 million of additions of capitalized software primarily for the purchase and implementation of new enterprise-wide information systems and $6.3 million of additions of property, plant and equipment. These uses of cash in investing activities during the first three quarters of fiscal 2008 were more than offset by the receipt of $25.3 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 three quarters of fiscal 2007 was primarily due to $4.4 million of additions of plant and equipment, $2.8 million of additions of capitalized software and $15.4 million of net purchases from short-term investing activities, partially offset by $20.4 million of net cash acquired from the Stratex acquisition.

Net Cash (Used in) Provided by Financing Activities

Our net cash used in financing activities in the first three quarters of fiscal 2008 was $11.3 million compared with $57.2 million provided by financing activities in the first three quarters of fiscal 2007. The net cash used in financing activities during the first three quarters of fiscal 2008 was for the repayment of $1.2 million in short-term debt, payment of $3.2 million on our capital lease obligation to Harris and $8.4 million in principal payments on long-term debt. We received $1.5 million in proceeds from the exercise of former Stratex stock options during the first three quarters of fiscal 2008.

During the first three quarters of fiscal 2007, our cash provided by financing activities was primarily from net cash and other transfers from Harris prior to the Stratex acquisition totaling $24.1 million, $26.9 million in proceeds from the issuance of Class B common stock to Harris, $8.3 million in proceeds from the issuance of redeemable preference shares and $1.4 million in proceeds from the exercise of former Stratex stock options. Cash used in financing activities during the first three quarters of fiscal 2007 primarily consisted of $2.6 million of payments on long-term debt.

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Sources of Liquidity

At March 28, 2008, our principal sources of liquidity consisted of $100.4 million in cash, cash equivalents, short-term investments and available for sale securities and $30.4 million of available credit under our $50 million credit facility.

Available Credit Facility and Repayment of Debt

At March 28, 2008, we had $30.4 million of credit available against our $50 million revolving credit facility mentioned above. This amount was determined by reducing the total facility amount of $50 million by the amount of borrowings outstanding and unexpired standby letters of credit as of March 28, 2008. As of that date, the balance of the term loan portion of our credit facility was $11.0 million and there were $8.6 million in unexpired standby letters of credit. There were no borrowings under the short-term debt portion of the facility as of March 28, 2008.

We are currently negotiating a new credit facility to replace the current facility. Commitments have been received from two commercial banks for a $120 million revolving credit facility with an initial committed amount of $70 million. The existing lender has provided one of the commitment letters. We have negotiated the general terms and conditions of the new credit facility with the banks and are currently finalizing the loan agreement. To allow sufficient time for finalization of the loan documentation for the new facility, the expiry date of the current facility has been extended to July 29, 2008 by an amendment dated April 30, 2008. As a condition of the new facility, the remaining term debt balance will be repaid. However, all standby letters of credit issued by the current lender will remain outstanding.

Our debt consisted of the following at March 28, 2008 and June 29, 2007:

	March 28, 2008	June 29, 2007
	(In millions)	
Credit Facility with Bank:		
Term Loan A	$ 1.0	$ 5.7
Term Loan B	10.0	13.8
Other short-term notes		1.2
Total	11.0	20.7
Less current portion and short-term notes	(6.0)	(11.9)
Long-term debt	$ 5.0	$ 8.8

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 March 28, 2008, our future debt principal payment obligations were as follows:

	Years Ending in June (In millions)
2008	$ 2.3
2009	5.0
2010	3.7
Total	$ 11.0

Based on covenants included as part of the credit facility we have 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 have 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 March 28, 2008, we were in compliance with these financial covenants.

Restructuring and Severance Payments

We had total liability for restructuring activities of $12.3 million as of March 28, 2008, of which $6.7 million was classified as a current liability and expected to be paid out in cash over the next 12 months.

Contractual Obligations

At March 28, 2008, 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 three quarters ended March 28, 2008, no material changes occurred in our contractual obligations as disclosed in our Fiscal 2007 Form 10-K.

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 three quarters ended March 28, 2008, 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.

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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, 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, there are accounting pronouncements that have recently been issued but have not yet been implemented by us. Note B in this Form 10-Q 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 March 28, 2008, we had open foreign exchange contracts with a notional amount of $58.2 million ($52.5 million at June 29, 2007), of which $9.8 million ($15.1 million at June 29, 2007) were designated as Statement 133 hedges and $48.4 million ($37.4 million at June 29, 2007) were not designated as Statement 133 hedges. At March 28, 2008, contract expiration dates ranged from less than one month to 2.5 months with a weighted average contract life of less than one month. 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 March 28, 2008, we estimated that a pre-tax loss of $0.7 million would be reclassified into earnings from accumulated other comprehensive income within the next three months related to these cash flow hedges.

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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 Condensed Consolidated Statements of Operations (Unaudited) in the first three quarters of fiscal 2008 and the first three quarters of fiscal 2007 representing hedge ineffectiveness were not significant. We recognized less than $0.1 million, in our Condensed Consolidated Statements of Operations (Unaudited) in the quarter and three quarters ended March 28, 2008 and March 30, 2007 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.

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 $5.5 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 cash equivalents, short-term investments and bank debt.

Exposure on Cash Equivalents and 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. As of March 28, 2008, our portfolio does not contain mortgage based and auction rate securities. 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.

As of March 28, 2008, we had $3.4 million of short-term investments with contractual maturities ranging from 1 to 10 months. These investments included certificates of deposit, commercial paper and corporate notes.

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 March 28, 2008 was 108 days and had an average yield of 4.48% per annum. The average number of days to maturity for our cash equivalents at March 28, 2008 was less than 2 days and had an average yield of 2.84% per annum. The potential loss in fair value resulting from a hypothetical 10% decrease in quoted market price was approximately $0.3 million at March 28, 2008.

As of March 28, 2008, unrealized losses 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 March 28, 2008 we had $30.3 million of available credit. All of our borrowings at March 28, 2008 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 principal executive officer and principal financial officer, has 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. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of March 28, 2008, our disclosure controls and procedures were effective.

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We are required to comply with Section 404 of the Sarbanes-Oxley Act of 2002 by our fiscal year ending June 27, 2008. The notification of such compliance is due no later than the time we file our annual report on Form 10-K for the fiscal year ending June 27, 2008. We believe we will have adequate resources and expertise, both internal and external, in place to meet this requirement. However, there is no guarantee that our efforts will result in management s ability to conclude, or our independent registered public accounting firm to attest, that our internal control over financial reporting is effective as of June 27, 2008.

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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. We do not believe that there have been any material changes to the risk factors previously disclosed in our Fiscal 2007 Form 10-K, 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 and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations.

Item 6. Exhibits.

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

Exhibit Number	Description
(10.1)	Amendment No. 6 to Amended and Restated Loan and Security Agreement.
(10.15.1)	Employment Agreement with Harald J. Braun.
(10.15.2)	Separation Agreement and Release of All Claims with Guy M. Campbell.
(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.

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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: May 6, 2008

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

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