

Harris Stratex Networks, Inc.
Form 10-K
August 27, 2007

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

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended **June 29, 2007**
- or**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

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

Delaware
(State or other jurisdiction of incorporation or organization)

20-5961564
(I.R.S. Employer Identification No.)

637 Davis Drive
Morrisville, North Carolina
(Address of principal executive offices)

27560
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Class A Common Stock, par value \$0.01 per share	The NASDAQ Stock Market LLC
Class B Common Stock, par value \$0.01 per share	None
Warrants	None

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

As of December 29, 2006, the last business day of our most recently completed second fiscal quarter, our Class A Common Stock was not listed on any exchange or over-the-counter market. Our Class A Common Stock began trading on the NASDAQ Global Market on January 30, 2007. As of June 29, 2007, the aggregate market value of the registrant's Class A Common Stock held by non-affiliates was approximately \$450,097,000.

Class of Stock	Shares Outstanding as of August 14, 2007
Class A Common Stock, par value \$0.01 per share	25,455,168
Class B Common Stock, par value \$0.01 per share	32,913,377
Total shares of common stock outstanding	58,368,545

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders scheduled to be held November 14, 2007, which will be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year ended June 29, 2007, are incorporated by reference into Part III of this Annual Report on Form 10-K to the extent described therein.

HARRIS STRATEX NETWORKS, INC.

**ANNUAL REPORT ON FORM 10-K
For the Fiscal Year Ended June 29, 2007**

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not materialize or prove correct, could cause our results to differ materially from those expressed or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements of, about, concerning or regarding: our plans, strategies and objectives for future operations; our research and development efforts and new product releases and services; trends in revenue; drivers of our business and the markets in which we operate; future economic conditions, performance or outlook and changes in our industry and the markets we serve; the outcome of contingencies; the value of our contract awards; beliefs or expectations; the sufficiency of our cash and our capital needs and expenditures; our intellectual property protection; our compliance with regulatory requirements and the associated expenses; expectations regarding litigation; our intention not to pay cash dividends; seasonality of our business; the impact of foreign exchange and inflation; taxes; and assumptions underlying any of the foregoing. Forward-looking statements may be identified by the use of forward-looking terminology, such as believes, expects, may, should, would, will, intends, plans, estimates, anticipates, projects, targets, goals, seeing, forecasts, future, predict, might, could, potential, or the negative of these terms, and similar words or expressions. You should not place undue reliance on these forward-looking statements, which reflect our management's opinions only as of the date of the filing of this Annual Report on Form 10-K. Forward-looking statements are made in reliance upon the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we undertake no obligation, other than as imposed by law, to update forward-looking statements to reflect further developments or information obtained after the date of filing of this Annual Report on Form 10-K or, in the case of any document incorporated by reference, the date of that document, and disclaim any obligation to do so.

The following are some of the factors we believe could cause our actual results to differ materially from expected and historical results. Other factors besides those listed here also could adversely affect us, including those in Item 1A. Risk Factors :

The recent acquisition of Stratex could be difficult to integrate and we may fail to see the expected synergies between the combined companies.

We participate in markets that are often subject to uncertain economic conditions, which makes it difficult to estimate growth in our markets and, as a result, future income and expenditures.

We derive a substantial portion of our revenue from international operations and are subject to the risks of doing business in foreign countries, including fluctuations in foreign currency exchange rates.

Our future success will depend on our ability to develop new products that achieve market acceptance.

We cannot predict the consequences of future geo-political events, but they may adversely affect the markets in which we operate, our ability to insure against risks, our operations or our profitability.

We have made, and may continue to make, strategic acquisitions that involve significant risks and uncertainties, including the diversion of management attention, difficulties in integration and a failure to realize expected synergies between the combined companies.

The inability of our subcontractors to perform, or our key suppliers to deliver our components or products, could cause our products to be produced in an untimely or unsatisfactory manner.

Third parties have claimed in the past and may claim in the future that we are infringing upon their intellectual property rights, and third parties may infringe upon our intellectual property rights.

The outcome of litigation or arbitration in which we are involved is unpredictable and an adverse decision in any such matter could have a material adverse affect on our financial position and results of operations.

We are subject to customer credit risk.

Developing new technologies entails significant risks and uncertainties.

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We have significant operations in Florida that could be materially and adversely impacted in the event of a hurricane, and operations in California that could be materially and adversely impacted in the event of an earthquake.

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

PART I.

Item 1. *Business.*

Harris Stratex Networks, Inc., together with its subsidiaries, is a leading global independent supplier of turnkey wireless network solutions and comprehensive network management software, backed by an extensive suite of professional services and support. As the market share leader in North America and a top-tier provider in international markets, we offer a broad portfolio of reliable, flexible, scalable and cost-efficient wireless network solutions, based on our innovative microwave radio systems and network management software. We serve all global markets, including mobile network operators, public safety agencies, private network operators, utility and transportation companies, government agencies and broadcasters. Customers in more than 135 countries depend on us to build, expand and upgrade their voice, data and video solutions and we are recognized around the world for innovative, best-in-class solutions and services.

Harris Stratex Networks, Inc. was incorporated in Delaware in 2006 to combine the businesses of Harris Corporation's Microwave Communications Division (MCD) and Stratex Networks, Inc. (Stratex). Our principal executive offices are located at 637 Davis Drive, Morrisville, North Carolina 27560. Our telephone number is (919) 767-3230. Our Internet address is www.harrisstratex.com. Our common stock is listed on the NASDAQ Global Market under the symbol HSTX. On August 1, 2007, we employed approximately 1,440 people. Unless the context otherwise requires, the terms we, our, us, Company, HSTX and Harris Stratex as used in this Annual Report on Form 10-K refer to Stratex Networks, Inc. and its subsidiaries.

Acquisition of Stratex Networks, Inc. and Combination with MCD

On January 26, 2007, we completed our merger (the Stratex acquisition) with Stratex Networks, Inc. (Stratex) pursuant to a Formation, Contribution and Merger Agreement among Harris Corporation, 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 Corporation 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 international operating subsidiaries on January 26, 2007) to the Company (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 Corporation contributed the assets of MCD, along with \$32.1 million in cash, and in exchange, we assumed certain liabilities of Harris Corporation related to MCD and issued 32,913,377 shares of our Class B common stock to Harris Corporation. As a result of these transactions, Harris Corporation 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.

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The Stratex acquisition was accounted for as a purchase business combination. Total consideration paid by us was approximately \$493.1 million as summarized in the following table (see Note D to consolidated financial statements):

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

Overview of Companies prior to the Business Combination***Stratex Networks, Inc.***

Stratex Networks, Inc., formerly known as Digital Microwave Corporation and DMC Stratex Networks, Inc., was incorporated in California in 1984 and reincorporated in Delaware in 1987. In August 2002, Stratex changed its name from DMC Stratex Networks, Inc. to Stratex Networks, Inc. Stratex was a leading provider of innovative wireless transmission solutions to mobile wireless carriers and data access providers around the world. Its solutions also addressed the requirements of fixed wireless carriers, enterprises and government institutions that operate broadband wireless networks. The company designed, manufactured and marketed a broad range of products that offered a wide range of transmission frequencies, ranging from 0.3 to 38 gigahertz (GHz), and a wide range of transmission capacities, typically ranging from 64 kilobits per second to 2xOC-3 or 311 megabits per second. In addition to product offerings, the company provided network planning, design and installation services and worked closely with its customers to optimize transmission networks.

Stratex had a long history of introducing innovative products into the telecommunications industry. Its newest product platform, Eclipsetm, which began shipping in January 2004, was one of the first wireless transmission platforms to combine a broad range of wireless transmission functions into one network processing node. This node contains many functions that previously had to be purchased separately from one or more equipment suppliers. Eclipse has the flexibility to increase transmission speeds and adjust capacity via software upgrades. It is designed to simplify complex networks and lower the total cost of ownership over the product life.

The sales of all of Stratex product lines were generated primarily through its worldwide direct sales force. The company also generated sales through base station suppliers, distributors and agents. It marketed its products directly to service providers directly, as well as indirectly through relationships with original equipment manufacturer (OEM) base station suppliers. Overall, Stratex had sold over 300,000 microwave radios prior to its merger with the Company, which have been installed in over 135 countries.

Harris Corporation s Microwave Communications Division

MCD designed, manufactured and sold a broad range of microwave radios for use in worldwide wireless communications networks. Applications included wireless/mobile infrastructure connectivity; secure data networks; public safety transport for state, local and federal government users; and right-of-way connectivity for utilities, pipelines, railroads and industrial companies. In general, wireless networks are constructed using microwave radios and other equipment to connect cell sites, fixed-access facilities, switching systems, land mobile radio systems and

other wireless transmission systems. For many applications, microwave systems offer a lower-cost, highly reliable alternative to competing transmission technologies such as fiber, coaxial cable or copper wire systems. MCD's product line spanned frequencies from 2 to 38 GHz and included:

The TRuepoint® family of microwave radios. MCD's next-generation microwave point-to-point radio platform, which provides Synchronous Digital Hierarchy (SDH) and Plesiochronous Digital Hierarchy (PDH) in a single platform and is designed to meet the current and future needs of network operators, including mobile, private network, government and access service providers. The unique architecture of the core platform reduces both capital expenditures and life cycle costs, while meeting international and North American standards and regulatory requirements. The software-based architecture enables transition

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between traditional microwave access applications and higher-capacity transport interconnections. The wide range of capacities, interfaces, modulation schemes, frequency/channel plans and power levels have been made available to meet the requirements of networks around the world. The TRuepoint product family delivered service from 4 to 180 megabits per second (Mbps) capacity at frequencies ranging from 6 to 38 GHz;

The Constellation® medium-to-high-capacity family of point-to-point digital radios, operating in the 6, 7/8 and 10/11 GHz frequencies, designed for network applications and supporting both PDH and Synchronous Optical Network (SONET), the standard for digital transport over optical fiber in North American applications. Constellation radios are suited for wireless mobile carriers and private operators, including critical public safety networks; and

MegaStar® high-capacity, carrier-class digital point-to-point radios, operating in the 5, 6, 7/8 and 11 GHz frequencies and designed to eliminate test equipment requirements, reduce network installation and operation costs, and conform to PDH, SONET and SDH standards.

MCD provided turnkey microwave systems and service capabilities, offering complete network and systems engineering support and services, including planning, design and systems integration, site surveys and builds, deployment, management, training and customer service the full range of services being a key competitive discriminator for MCD in the microwave radio industry.

MCD also offered a comprehensive network management system. Its NetBoss® integrated network management platform supports wireless, wireline and Internet service providers. NetBoss offers fault management, performance management, service activation, billing mediation and Operational Support System (OSS) integration in a modular, off-the-shelf solution designed for rapid deployment. The modularity of NetBoss enables customers to implement a comprehensive set of capabilities immediately or gradually, as their needs dictate. The newest offering in this product family is NetBoss EM, an element manager.

Principal customers for MCD s products and services included domestic and international wireless/mobile service providers, original equipment manufacturers, as well as private network users such as public safety agencies, utilities, pipelines, railroads and other industrial enterprises. In general, MCD s North American products and services were sold directly to customers through its sales organizations and established distribution channels. Internationally, MCD marketed and sold its products and services through regional sales offices and established distribution channels.

Overview of Integrated Company after the Business Combination

We design, manufacture and sell a range of wireless networking products, solutions and services to mobile and fixed telephone service providers, private network operators, government agencies, transportation and utility companies, public safety agencies and broadcast system operators across the globe. Products include point-to-point digital microwave radio systems for mobile system access, backhaul, trunking and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades. We offer a broad range of products, including the products developed and sold by both Stratex and MCD. We deliver our products and services through three reportable business segments: North America Microwave, International Microwave and Network Operations. Network Operations serves all markets worldwide. Revenue and other financial information regarding our business segments is set forth on pages 39-41 of this Annual Report on Form 10-K.

North America Microwave

The North America Microwave segment delivers microwave radio products and services to major national carriers and other cellular network operators, public safety operators and other government agencies, systems integrators,

transportation and utility companies, and other private network operators within North America. A large part of our North American business is with the cellular backhaul and public safety segments.

Historically, and prior to the merger of Stratex and Harris MCD, the North America Microwave segment accounted for the most significant portion of our revenue. Because substantially all of Stratex's revenue was in international markets, our North America segment revenue declined to approximately 43% of our total revenue for

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fiscal 2007. We generally sell products and services directly to our customers. We use distributors to sell some products and services.

International Microwave

The International Microwave segment delivers microwave radio products and services to regional and national carriers and other cellular network operators, public safety operators, government and defense agencies, and other private network operators in every region outside of North America. Our wireless systems deliver regional and country-wide backbone in developing nations, where microwave radio installations provide 21st-century communications rapidly and economically. Rural communities, areas with rugged terrain and regions with extreme temperatures benefit from the ability to build an advanced, affordable communications infrastructure despite these challenges. A significant part of our international business is in supplying wireless segments in small-pocket, remote, rural and metropolitan areas. High-capacity backhaul is another major opportunity for us. We see the increase in subscriber density and the forecasted growth and introduction of new bandwidth-hungry 3G services as major drivers for growth in this market.

Our International Microwave segment represented approximately 53% of our revenue for fiscal 2007. The addition of Stratex business contributes significantly to our International Microwave segment, since approximately 95% of Stratex's historical revenue was in international markets. We generally sell products and services directly to our customers. We use agents and distributors to sell some products and services in international markets.

Network Operations

The Network Operations segment offers a wide range of software-based network management solutions for network operators worldwide, from element management to turnkey, end-to-end network management and service assurance solutions for virtually any type of communications or information network including broadband, wireline, wireless and converged networks. The NetBoss product line develops, designs, produces, sells and services network management systems for these applications. Other element management product families include ProVision® and StarView™.

Our Network Operations segment represented approximately 4% of our revenue for fiscal 2007. We generally sell products and services directly to our customers. We use agents, resellers and distributors to sell some products and services in international markets.

Industry Background

Wireless transmission networks are constructed using microwave radios and other equipment to connect cell sites, switching systems, wireline transmission systems and other fixed access facilities. Wireless networks range in size from a single transmission link connecting two buildings to complex networks comprising of thousands of wireless connections. The architecture of a network is influenced by several factors, including the available radio frequency spectrum, coordination of frequencies with existing infrastructure, application requirements, environmental factors and local geography.

There has been an increase in the capital spending in the wireless telecommunications industry in recent years. The demand for high-speed wireless transmission products has been growing at a slightly higher rate than the wireless industry as a whole. We believe that this growth is directly related to a growing global subscriber base for mobile wireless communications services, increased demand for fixed wireless transmission solutions and demand for new services delivered from next-generation networks capable of delivering broadband services. Major driving factors for such growth include the following:

Increase in global wireless subscribers and minutes of use. The number of global wireless subscribers and minutes of use per subscriber are expected to continue to increase. The primary drivers include increased subscription, increased voice minutes of use per subscriber and the growing use by subscribers of data applications. Third generation, or 3G, data applications have been introduced in developed countries and this has fueled an increase in minutes of data use. We believe that growth as a result of new data services will continue for the next several years.

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Increased establishment of mobile and fixed wireless telecommunications infrastructures in developing countries. In parts of the world, telecommunications services are inadequate or unreliable because of the lack of existing infrastructures. To service providers in developing countries seeking to increase the availability and quality of telecommunications and Internet access services, wireless solutions are an attractive alternative to the construction or leasing of wireline networks, given their relatively low cost and ease of deployment. As a result, there has been an increased establishment of mobile and fixed wireless telecommunications infrastructures in developing countries. Emerging telecommunications markets in Africa, Asia, the Middle East, Latin America and Eastern Europe are characterized by a need to build out basic telecommunications systems.

Technological advances, particularly in the wireless telecommunications market. The demand for cellular telephone and other wireless services and devices continues to increase due to technological advances and increasing consumer demand for connectivity to data and voice services. New mobile-based services based upon third-generation wireless technology is also creating additional demand and growth in mobile networks and their associated infrastructure. The demand for fixed broadband access networks has also increased due to data transmission requirements resulting from Internet access demand. Similar to cellular telephone networks, wireless broadband access is typically less expensive to install and can be installed more rapidly than a wireline or fiber alternative. New and emerging services such as WiMAX are expected to expand over the next several years. Both WiMAX and new high-speed mobile-based technology can be used for a number of applications, including last mile broadband connections, hotspots and cellular backhaul, and high-speed enterprise connectivity for business.

Global deregulation of telecommunications market and allocation of radio frequencies for broadband wireless access. Regulatory authorities in different jurisdictions allocate different portions of the radio frequency spectrum for various telecommunications services. Many countries have privatized the state-owned telecommunications monopoly and opened their markets to competitive network service providers. Often these providers choose a wireless transmission service, which causes an increase in the demand for transmission solutions. Such global deregulation of the telecommunications market and the related allocation of radio frequencies for broadband wireless access transmission have led to increased competition to supply wireless-based transmission systems.

Other Global trends and developments in the microwave communications markets include:

Continuing fixed-line to mobile-line substitution;

Private networks and public telecommunications operators building high-reliability, high-bandwidth networks that are more secure and better protected against natural and man-made disasters;

Continuing global mobile operator consolidation; and

An FCC network initiative in the U.S. The FCC has allocated 90 megahertz (MHz) of spectrum to Advanced Wireless Services (AWS) 45 MHz in the 1710-1755 MHz (government) band and 45 MHz in the 2110-2155 MHz (commercial) band. Operators and federal agencies currently using these frequencies must move to another frequency to allow new entrants to use these frequencies for networks that deliver AWS services. This is a large opportunity for wireless transmission solution providers with extensive experience with frequency moves, as is the case with Harris Stratex Networks.

We believe that as broadband access and telecommunications requirements grow, wireless systems will continue to be used as transmission systems to support a variety of existing and expanding communications networks and applications. We believe that wireless systems will be used to address the connection requirements of several markets and applications, including the broadband access market, cellular applications and private networks.

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Strategy

Our objective is to enhance our position as a leading provider of innovative, high-value wireless transmission solutions for the worldwide mobile, network interconnection and broadband access markets. To achieve this objective, our strategy is to:

Continue to serve our existing customer base. As a combined company, we have sold more than 750,000 microwave radios in over 135 countries. Today, our sales are distributed about evenly between the United States and international markets, with the international segment growing at a faster rate. We intend to leverage our customer base, our longstanding presence in many countries, our distribution channels, our comprehensive product line and our turnkey solution capability to continue to sell existing and new products and services to current customers.

Continue to grow our North America business. The North American market has been a traditional stronghold for MCD, and Harris Stratex Networks continues to be a clear leader in the U.S. wireless transmission market. We plan to continue our growth and leadership with innovative TRuepoint solutions for cellular backhaul, public safety, government, utilities, transportation and other market segments. Eclipse will play a growing role in cellular backhaul and in carrier Ethernet, a new type of networking using data links for all types of carrier services, including voice.

Continue to grow our international business. We believe we are well-positioned to take advantage of worldwide market opportunities for wireless infrastructure to significantly grow our international business. We have a strong presence in Africa, as well as Europe, the Middle East and Russia, (EMER) and a growing presence in the Asia-Pacific region and South America. We plan to pursue opportunities in high-growth markets in all of these regions, leveraging our innovative products, full turnkey solution capability and professional services. Our new international headquarters in the Republic of Singapore (Singapore) is now in operation as a base for our international business and a sales and service hub for the Asia-Pacific region, reflecting and supporting our growing focus on international markets.

Continue to introduce innovative products that meet the needs of our customers. We have a long history of introducing innovative products into the telecommunications industry. Both Eclipse and TRuepoint offer high-value solutions to virtually every type of service provider or network operator. Eclipse offers a flexible, cost-efficient nodal solution that reduces external equipment requirements, while TRuepoint offers flexible, high-performance, high-reliability wireless networking for all global capacity and frequency requirements.

Expand existing markets and explore new market opportunities. We intend to expand our presence in the mobile wireless market by exploiting market opportunities created by the growing number of global wireless subscribers, increasing global minutes of use, the continuing emergence of new services and the commitment of developing nations around the world to expand national infrastructure to all population areas via cost-efficient, rapidly installed microwave radio networks. We also intend to expand our market share in the emerging data business. In particular, carrier-grade Ethernet market opportunities are starting to emerge and Eclipse is ideally suited to meet those needs.

Offer complete turnkey solutions. We plan to continue leveraging more than eight decades of microwave experience in the combined companies to offer industry-leading professional services, from network planning to site builds, system deployment and network monitoring.

Deliver superior customer service. We intend to keep improving our industry-leading customer service organization to maximize our customers' satisfaction with our solutions and loyalty to us as a solution provider.

Solutions

Our solutions are designed to meet the various regional, operational and licensing needs of our wireless transmission customers. We provide turnkey microwave systems and service capabilities, offering complete civil

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engineering, network and systems engineering support and services a key competitive differentiator for Harris Stratex Networks in the microwave radio industry. Our solutions offer the following benefits:

Broad product and solution portfolio. We offer a comprehensive line of wireless transmission solutions, consisting of various combinations of microwave digital radios, integrated ancillary equipment from Harris Stratex Networks or other manufacturers, network management systems and professional services. These solutions address a wide range of transmission frequencies, ranging from 2 to 38 GHz, and a wide range of transmission capacities, ranging from 64 kilobits per second to 311 megabits per second. Major product families include Eclipse, TRuepoint, MegaStar, Constellation, Aurora™, Velox LE™, NetBoss and ProVision.

Low total cost of ownership. Compared to prior-generation products, both Eclipse and TRuepoint offer a relatively low total cost of ownership, based on the combined costs of initial acquisition, installation and ongoing operation and maintenance. Multiple factors work to reduce cost of ownership. Both platforms reduce rack space and spare parts requirements. Installation, operation, upgrade and maintenance costs are also lower because of automated or simplified procedures and the smaller number of parts required to obtain the same functionality as previous generations. Products in both platforms have a longer life.

Future-proof network. Eclipse and TRuepoint are designed to future-proof the network operator's investment, via software-configurable capacity upgrades and plug-in modules that provide an easy migration path to emerging technologies, such as Internet Protocol (IP)-based networking.

Flexible, easily configurable products. We intend to continue using standard design platforms, flexible architectures and chip designs and software configurable features. This design and manufacturing strategy allows us to offer our customers high-performance products with a high degree of flexibility and functionality, while shortening the time required for us to develop new configurations and capabilities. The software features of our products give our customers a greater degree of flexibility in installing, operating and maintaining their networks. Both Eclipse and TRuepoint are highly scalable and easily configurable through software, giving operators the ability to adapt to changing conditions with minimal cost and disruption and making it easier for them to plan and deploy their networks.

Comprehensive network management. We offer a range of flexible network management solutions, from element management to enterprise-wide network management and service assurance all optimized to work with Harris Stratex Networks' wireless transmission systems. NetBoss is also offered as a stand-alone solution for a wide range of communications and information networking environments in virtually any industry.

Complete professional services. In addition to our product offerings, we provide expert network planning and design, site surveys and builds, systems integration, installation, maintenance, network monitoring, training, customer service and many other professional services. Our services cover the entire evaluation, purchase, deployment and operational cycle and enable us to be one of the few complete turnkey solution providers in the industry.

Product Portfolio

We offer a comprehensive product portfolio that addresses the needs of service providers and network operators in every region of the world, addressing a broad range of applications, frequencies, capacities and network topologies. Product categories include licensed (subject to local frequency licensing) and license-exempt (operating in license-exempt frequencies) point-to-point microwave radios and network management software.

Licensed Point-to-Point Microwave Radios

In general, wireless networks are constructed using microwave radios and other equipment to connect cell sites, fixed-access facilities, switching systems, land mobile radio systems and other communications systems. For many applications, microwave systems offer a lower-cost, highly reliable and more easily deployable alternative to competing wireline transmission media, such as fiber, copper or coaxial cable.

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Our principal product families of licensed point-to-point microwave radios include Eclipse, a platform for nodal wireless transmission systems and TRuepoint, a platform for high-performance point-to-point wireless communications. Constellation and MegaStar continue to be significant product families used for high-capacity trunking applications both in U.S. and international markets.

Eclipse

Eclipse combines wireless transmission functions with network processing node functions, including many functions that, for non-nodal products, would have to be purchased separately. Each Eclipse Intelligent Node Unit (INU) is a complete network node, able to support multiple radio paths. System functions include voice, data and video transport, node management, multiplexing, routing and cross-connection. Eclipse is designed to simplify complex networks and lower the total cost of ownership over the product life. We believe that these are significant innovations that address the needs of a broad range of customers.

With frequency coverage from 5 to 38 GHz, low-to-high capacity operation and traditional TDM and Ethernet transmission capabilities, Eclipse is designed to support a wide range of long and short haul applications. In fiscal year 2006, Eclipse added carrier-grade Ethernet support via Ethernet plug-in cards. Eclipse is software-configurable, enabling easy capacity upgrades, and gives users the ability to plan and deploy networks and adapt to changing conditions at minimum cost and disruption. It requires fewer parts and spares and less rack space than previous-generation product platforms.

TRuepoint

Our TRuepoint product family offers full plug-and-play, software-programmable microwave radio configuration. It delivers service from 4 to 180 megabits per second capacity at frequencies ranging from 6 to 38 GHz. TRuepoint is designed to meet the current and future needs of network operators, including mobile, private network, government and access service providers. The unique architecture of the core platform reduces both capital expenditures and life cycle costs, while meeting international and North American standards. The software-based architecture enables migration from traditional microwave access applications to higher-capacity transport interconnections.

The TRuepoint family continues our tradition of high-performance, high-reliability wireless networking. The TRuepoint 5000 provides full-featured access, backhaul and mid-capacity trunking. Currently in development and due for release in fiscal 2008, the TRuepoint 6000 provides very-high-capacity trunking and software-programmable features in an advanced architecture. TRuepoint reduces cost of deployment through smaller antenna requirements, increased transmission distance, and fewer repeater sites. It also reduces operating costs through high reliability, efficient diagnostics and network management, reduced real estate requirements, low power consumption and reduced spare parts and training requirements.

Constellation

Our Constellation family of medium-to-high-capacity point-to-point digital radios operates in the 6, 7/8 and 10/11 GHz frequencies, which are designed for network applications and support both PDH, the standard for high-speed networking in North American and international markets, and SONET, the standard for digital transport over optical fiber in North American applications. Constellation radios are suited for wireless mobile carriers and private operators, including critical public safety networks.

MegaStar

Our MegaStar family of very-high-capacity, N for 1, carrier-class digital point-to-point radios operates in the 5, 6, 7/8 and 11 GHz frequencies. MegaStar radios are designed to eliminate test equipment requirements, reduce network installation and operation costs, and conform to PDH, SONET and SDH standards.

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License-Exempt Point-to-Point Microwave Radios

Harris Stratex Networks offers two license-exempt product families – Aurora and Velox LE. Both provide wireless interconnection for wireless access, cellular backhaul, Internet service, local and wide area networking and emergency response communications systems. Both enable network operators to deploy wireless transmission systems rapidly, reliably and cost-efficiently, while avoiding costly, time-consuming frequency coordination and licensing.

Velox LE

Velox LE license-exempt radios operate in the 2.4 and 5.8 GHz license-exempt frequency bands and offer wireless service in 1, 2, 4 or 8 T1/E1 configurations. Velox LE provides support for high-speed data and voice.

Network Management

Our network management product families include NetBoss, ProVision and StarView. These product families offer a broad set of choices for all levels of network management, from enterprise-wide management and service assurance to element management.

NetBoss

NetBoss is a family of network management and service assurance solutions for managing multi-vendor, multi-technology communications networks. It offers high performance, availability, scalability and flexibility, and is designed to manage complex and demanding networks, including networks built on advanced next-generation technologies.

NetBoss supports wireless and wireline networks of many types, offering fault management, performance management, service activation and assurance, billing mediation and OSS integration. As a modular, off-the-shelf product, it enables customers to implement management systems immediately or gradually, as their needs dictate. NetBoss XE offers advanced element management. NetBoss products are optimized to work seamlessly with Harris Stratex Networks digital microwave radios, such as the TRuepoint family, but can also be customized to manage products based on any network or computing technology.

ProVision

The ProVision element manager is a centralized network monitoring and control system optimized for Eclipse and TRuepoint products. Available as a Windows or UNIX-based platform, it can support small network systems as well as large networks of up to 1,000 radio links. The ProVision management system is built on open standards, and seamlessly integrates into higher-level system management products through commonly available interfaces.

StarView

StarView provides comprehensive element management for Harris Stratex Networks and other microwave radio products based on the SNMP protocol. It can manage almost any network topology.

Business Factors

A number of business factors support or affect our overall performance, including sales, marketing and service, manufacturing, order backlog, customer base, our competition, research, development and engineering, patents and intellectual property, regulatory, supply chain and environmental issues and our employee base.

Sales, Marketing and Service

We believe that a direct and continuing relationship with service providers is a competitive advantage in attracting new customers and satisfying existing ones. As a result, we offer our products and services through our own direct sales, service and support organization, which allows us to closely monitor the needs of our customers. We have offices in Canada and the United States in North America; Mexico, Argentina and Brazil in Central and

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South America; Croatia, France, Germany, Poland, Portugal and the United Kingdom in Europe; Kenya, Nigeria and South Africa in Africa; the United Arab Emirates in the Middle East; and Bangladesh, China, India, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand in the Asia-Pacific region. Our local offices provide us with a better understanding of our customers' needs and enable us to respond to local issues and unique local requirements.

We also have informal, and in some cases formal, relationships with OEM base station suppliers. Such relationships increase our ability to pursue a limited number of major contract awards each year. In addition, such relationships provide our customers with easier access to financing and integrated system providers with a variety of equipment and service capabilities. In selected countries, we also market our products through independent agents and distributors, as well as through system integrators.

Our sales personnel are highly trained to provide customers with assistance in selecting and configuring a digital microwave transmission system suitable for a customer's particular needs. We have repair and service centers in India, New Zealand, the Philippines, the United Kingdom and the United States. In addition, we opened our international headquarters in Singapore on June 20, 2007, with plans to provide customer support for the Asia-Pacific region from this facility. We have customer service and support personnel who provide customers with training, installation, technical support, maintenance and other services on systems under contract. We install and maintain customer equipment directly in some cases and contract with third-party service providers in other cases, depending on the equipment being installed and customer requirements. We generally offer a conditional warranty for all customers on all of our products.

Manufacturing

We employ a dual strategy of manufacturing our own products and using outsourced contract manufacturers. Some products, such as TRuepoint, Constellation and MegaStar, are manufactured at our facilities in San Antonio, Texas and the People's Republic of China. For Eclipse products, we have outsourced the majority of our manufacturing operations to Benchmark Electronics (Benchmark) in Thailand, Microelectronics Technology Inc. (MTI) in Taiwan and China and to GPC Electronics in Australia. We have retained product design and research and development functions for all of our products.

Although we outsource Eclipse product manufacturing, we maintain manufacturing support facilities in San Jose, California and Wellington, New Zealand, mainly focused on system testing and quality management. Our manufacturing operations have been certified to International Standards Organization (ISO) 9001, a recognized international quality standard. We have also been certified to the TL 9000 standard, a telecommunication industry-specific quality system standard.

Backlog

The backlog of unfilled orders was \$232 million at July 27, 2007, compared with \$164 million at July 28, 2006. Substantially all of this backlog is expected to be filled during fiscal 2008, but we can give no assurance of such fulfillment. Our backlog at July 27, 2007 includes \$68 million from our Stratex acquisition. Product orders in our current backlog are subject to changes in delivery schedules or to cancellation at the option of the purchaser without significant penalty. Accordingly, although useful for scheduling production, backlog as of any particular date may not be a reliable measure of sales for any future period because of the timing of orders, delivery intervals, customer and product mix and the possibility of changes in delivery schedules and additions or cancellations of orders.

Customers

Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, as well as private network users such as public safety agencies, government institutions, and utility, pipeline, railroad and other industrial enterprises that operate broadband wireless networks. We had revenue from a single external customer that exceeded 10% of our total revenue during fiscal 2006, but not during fiscal 2007 or fiscal 2005. During fiscal 2006, VMobile Nigeria accounted for 15.1% of total revenue. Although we have a large customer base, during any given quarter, a small number of customers may account for a significant portion of our revenue. In certain circumstances, we sell our products to service providers

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through OEMs, which provide the service providers with access to financing and in some instances, protection from fluctuations in international currency exchange rates.

In general, our North American products and services are sold directly to customers through direct sales organizations and through established distribution channels. Internationally, we market and sell products and services through regional sales offices and established distribution channels. We also sell our products to agents, distributors and base station suppliers, who provide and install integrated systems to service providers.

Non-U.S. Business

Our revenue in fiscal 2007 from products exported from the U.S. or manufactured abroad was \$339.2 million (67% of our revenue), compared with \$196.8 million (55% of our revenue) in fiscal 2006 and \$157.4 million (51% of our revenue) in fiscal 2005. These sales include both direct exports from the U.S. and sales from international subsidiaries. Most of these sales are derived from our International Microwave segment. Direct export sales are primarily denominated in U.S. dollars, whereas sales from international subsidiaries are generally denominated in the local currency of the subsidiary. Exports from the U.S., principally to Africa, Canada, Europe, Asia and South and Central America, totaled \$214.3 million (63% of our non-U.S. revenue) in fiscal 2007, \$85.1 million (43% of our non-U.S. revenue) in fiscal 2006 and \$49.8 million (32% of our non-U.S. revenue) in fiscal 2005. Operations conducted in local international currencies represented 19% of our revenue in fiscal 2007, 20% of our revenue in fiscal 2006 and 34% of our revenue in fiscal 2005. Non-U.S. operations represented 61% of our long-lived assets as of June 29, 2007 and 57% of long-lived assets as of June 30, 2006.

Non-U.S. marketing activities are conducted through subsidiaries operating in Europe, Central and South America, Africa and Asia. We also have established marketing organizations and several regional sales offices in these same geographic areas.

We use indirect sales channels, including dealers, distributors and sales representatives, in the marketing and sale of some lines of products and equipment, both domestically and internationally. These independent representatives may buy for resale or, in some cases, solicit orders from commercial or governmental customers for direct sales by us. Prices to the ultimate customer in many instances may be recommended or established by the independent representative and may be above or below our list prices. These independent representatives generally receive a discount from our list prices and may mark up those prices in setting the final sales prices paid by the customer. During fiscal 2007, revenue from indirect sales channels represented 11% of our total revenue and 16% of our non-U.S. revenue, compared to revenue from indirect sales channels in fiscal 2006 representing 5% of our total revenue and 6% of our non-U.S. revenue.

Fiscal 2007 revenue came from customers in a large number of international countries. Other than Nigeria, 10.9%, and Canada, 7.8%, no single country accounted for 5% or more of our total revenue. Most of our exports are paid for by letters of credit, with the balance carried either on an open account or installment note basis. Advance payments, progress payments or other similar payments received prior to, or upon shipment often cover most of the related costs incurred. In addition, significant international government contracts generally require us to provide performance guarantees. In order to stay competitive in international markets, we also enter into recourse and vendor financing to facilitate sales to certain customers.

The particular economic, social and political conditions for business conducted outside the U.S. differ from those encountered by domestic businesses. We believe that the overall business risk for our international business as a whole is somewhat greater than that faced by our domestic operations as a whole. For a discussion of the risks we are subject to as a result of our international operations, see Item 1A. Risk Factors of this Annual Report on Form 10-K.

Competition

The wireless access, backhaul and interconnection business is a specialized segment of the wireless telecommunications industry and is extremely competitive. We operate in highly competitive markets that are sensitive

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to technological advances. Some of our competitors have more extensive engineering, manufacturing and marketing capabilities and greater financial, technical and personnel resources than we have. Some of our competitors may have greater name recognition, broader product lines (some including non-wireless telecommunications equipment), a larger installed base of products and longer-standing customer relationships. Although successful product and systems development is not necessarily dependent on substantial financial resources, many of our competitors are larger than us and can maintain higher levels of expenditures for research and development. In addition, a portion of our overall market is addressed by large mobile infrastructure providers, who bundle microwave radios with other mobile network equipment, such as cellular base stations or switching systems, and offer a full range of services. This part of the market is generally not open to independent microwave suppliers such as us.

We concentrate on market opportunities that we believe are compatible with our resources, overall technological capabilities and objectives. Principal competitive factors are cost-effectiveness, product quality and reliability, technological capabilities, service, ability to meet delivery schedules and the effectiveness of dealers in international areas. We believe that our network and systems engineering support and service are key competitive strengths for us. However, customers may make decisions based on factors including price and past relationships.

Our principal existing and potential competitors include established companies such as Alcatel-Lucent, Eltek ASA, Ericsson, NEC and Nokia Siemens Networks, as well as a number of other smaller public and private companies in selected markets. Several of our competitors are original equipment manufacturers or systems integrators through which we sometimes distribute and sell products and services to end users. Some of our competitors have product lines that compete with ours.

Research, Development and Engineering

We believe that our ability to enhance our current products, develop and introduce new products on a timely basis, maintain technological competitiveness and meet customer requirements is essential to our success. Accordingly, we allocate, and intend to continue to allocate, a significant portion of our resources to research and development efforts.

Our research, development and engineering expenditures totaled approximately \$39.4 million or 7.8% of revenue in fiscal 2007 and \$28.8 million or 8.1% of revenue in fiscal 2006.

Research, development and engineering are primarily directed to the development of new products and to building technological capability. We are, and historically have been, an industry innovator. Consistent with our history and strategy of introducing innovative products, we intend to continue to focus significant resources on product development in an effort to maintain our competitiveness and support our entry into new markets. We maintain new product development programs that could result in new products and expansion of the TRuepoint, Eclipse and NetBoss product lines.

We maintain an engineering and new product development department, with scientific assistance provided by advanced-technology departments. As of June 29, 2007, we employed a total of approximately 225 people in our research and development organizations in Morrisville, North Carolina; San Jose, California; Wellington, New Zealand; and Montreal, Canada.

Patents and Other Intellectual Property

We consider our patents and other intellectual property rights, in the aggregate, to constitute an important asset. We own a portfolio of patents, trade secrets, know-how, confidential information, trademarks, copyrights and other intellectual property. We also license intellectual property to and from third parties. As of June 29, 2007, we held 93 U.S. patents and 70 international patents, and had 35 U.S. patent applications pending and 59 international patent

applications pending. We do not consider our business to be materially dependent upon any single patent, license or other intellectual property right, or any group of related patents, licenses or other intellectual property rights. From time to time, we may engage in litigation to enforce our patents and other intellectual property or defend against claims of alleged infringement. Any of our patents, trade secrets, trademarks, copyrights and other proprietary

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rights could be challenged, invalidated or circumvented, or may not provide competitive advantages. Numerous trademarks used on or in connection with our products are also considered to be valuable assets.

In addition, we enter into confidentiality and invention assignment agreements with our employees, and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and disclosure of our proprietary information.

While our ability to compete may be affected by our ability to protect our intellectual property, we believe that, because of the rapid pace of technological change in the wireless telecommunications industry, our innovative skills, technical expertise and ability to introduce new products on a timely basis will be more important in maintaining our competitive position than protection of our intellectual property. Trade secret, trademark, copyright and patent protections are important but must be supported by other factors such as the expanding knowledge, ability and experience of our personnel, new product introductions and product enhancements. Although we continue to implement protective measures and intend to defend vigorously our intellectual property rights, there can be no assurance that these measures will be successful.

Environmental and Other Regulations

Our facilities and operations, in common with those of our industry in general, are subject to numerous domestic and international laws and regulations designed to protect the environment, particularly with regard to wastes and emissions. We believe that we have complied with these requirements and that such compliance has not had a material adverse effect on our results of operations, financial condition or cash flows. Based upon currently available information, we do not expect expenditures to protect the environment and to comply with current environmental laws and regulations over the next several years to have a material impact on our competitive or financial position, but can give no assurance that such expenditures will not exceed current expectations. From time to time, we receive notices from the U.S. Environmental Protection Agency or equivalent state or international environmental agencies that we are a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act, which is commonly known as the Superfund Act, and/or equivalent laws. Such notices assert potential liability for cleanup costs at various sites, which include sites owned by us, sites we previously owned and treatment or disposal sites not owned by us, allegedly containing hazardous substances attributable to us from past operations.

Electronic products are subject to environmental regulation in a number of jurisdictions. Equipment produced by us is subject to domestic and international requirements requiring end-of-life management and/or restricting materials in products delivered to customers. We believe that we have complied with such rules and regulations, where applicable, with respect to our existing products sold into such jurisdictions.

Radio communications are also subject to governmental regulation. Equipment produced by us is subject to domestic and international requirements to avoid interference among users of radio frequencies and to permit interconnection of telecommunications equipment. We believe that we have complied with such rules and regulations with respect to our existing products, and we intend to comply with such rules and regulations with respect to our future products. Reallocation of the frequency spectrum also could impact our business, financial condition and results of operations.

Raw Materials and Supplies

Because of the diversity of our products and services, as well as the wide geographic dispersion of our facilities, we use numerous sources for the wide array of raw materials needed for our operations and for our products, such as electronic components, printed circuit boards, metals and plastics. We are dependent upon suppliers and subcontractors for a large number of components and subsystems and upon the ability of our suppliers and subcontractors to adhere to customer or regulatory materials restrictions and meet performance and quality

specifications and delivery schedules.

In some instances, we are dependent upon one or a few sources, either because of the specialized nature of a particular item or because of local content preference requirements pursuant to which we operate on a given project. Examples of sole or limited sourcing categories include metal fabrications and castings, for which we own the

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tooling and therefore limit our supplier relationships, and MMICs (a type of integrated circuit used in manufacturing microwave radios), which we procure at volume discount from a single source. Our supply chain plan includes mitigation plans for alternative manufacturing sources and identified alternate suppliers.

While we have been affected by performance issues of some of our suppliers and subcontractors, we have not been materially adversely affected by the inability to obtain raw materials or products. In general, any performance issues causing short-term material shortages are within the normal frequency and impact range experienced by high-tech manufacturing companies. They are due primarily to the high technical nature of many of our purchased components.

Employees

As of June 29, 2007, we employed approximately 1,440 people, compared with approximately 1,050 people at the end of fiscal 2006. The increase was due primarily to the Stratex acquisition (Stratex employed 453 people as of March 2006), partially offset by positions eliminated in our restructuring activities. Approximately 800 of our employees are located in the U.S. We also utilize a number of independent contractors. None of our employees in the U.S. is represented by a labor union. In certain international subsidiaries, our employees are represented by workers' councils or statutory labor unions. In general, we believe that our relations with our employees are good.

Web site Access to Harris Stratex Networks Reports; Available Information

General. We maintain an Internet Web site at <http://www.harrisstratex.com/>. Our annual reports on Form 10-K, proxy statement, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on our Web site as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC).

We will also provide the reports in electronic or paper form free of charge upon request. Our Web site and the information posted thereon are not incorporated into this Annual Report on Form 10-K or any other report that we file with or furnish to the SEC. All reports we file with or furnish to the SEC are also available free of charge via EDGAR through the SEC's website at <http://www.sec.gov>. The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room, 100 F. Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Additional information relating to our businesses, including our operating segments, is set forth in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Corporate Governance Principles and Committee Charters. We have adopted Corporate Governance Principles, which are available on the Corporate Governance section of our Web site at <http://www.harrisstratex.com/cg/default.asp>. In addition, the charters of each committee of our Board of Directors, including the Compensation Committee, Nominating Committee, Audit Committee and Corporate Governance Committee, are also available on the Corporate Governance section of our Web site. Copies of these charters are also available free of charge upon written request to our Corporate Secretary at Harris Stratex Networks, Inc., 637 Davis Drive, Morrisville, North Carolina 27560.

Harris Stratex Networks, Inc. was incorporated in the State of Delaware in October, 2006.

Item 1A. Risk Factors.

As indicated above in this Annual Report on Form 10-K under **Cautionary Statement Regarding Forward-Looking Statements**, all statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements of, about, concerning or regarding: our plans, strategies and objectives for future operations; new products, services or developments; trends in revenue; future economic conditions, performance or outlook; the outcome of contingencies; the value of our contract awards; beliefs or expectations; and assumptions underlying any of the foregoing. These statements reflect the current beliefs, expectations, estimates, forecasts or intent of our management and are subject to and involve certain risks and uncertainties. Many of these risks and uncertainties are outside of our control and are difficult for us to forecast or

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mitigate. In addition to the risks described elsewhere in this Annual Report on Form 10-K and in certain of our other filings with the SEC, the following risks and uncertainties, among others, could cause our actual results to differ materially from those contemplated by us or by any forward-looking statement contained herein. Prospective and existing investors are strongly urged to carefully consider the various cautionary statements and risks set forth in this Annual Report on Form 10-K and our other public filings.

The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are not aware of or focused on may also impair our business operations. If any of these risks actually occur, our financial condition and results of operations could be materially and adversely affected.

Risks Related to our Merger with Stratex

Our merger with Stratex created numerous risks and uncertainties which could adversely affect our operating results.

Strategic transactions like our merger with Stratex create numerous uncertainties and risks. Harris MCD has transitioned from being a division of Harris to being a stand-alone company, Harris Stratex. Both Stratex and Harris MCD are transitioning from being smaller companies to being a larger company, Harris Stratex. This merger entails many changes, including the integration of personnel from Harris MCD and Stratex and changes in systems and employee benefits plans. These transition activities are complex, and we may encounter unexpected difficulties or incur unexpected costs, including:

the diversion of management's attention to integration matters;

difficulties in achieving expected cost savings associated with the transaction;

difficulties in the integration of operations and systems;

difficulties in the assimilation of employees;

difficulties in replacing the support functions currently provided by Harris to us, including support and assistance for financial, operational and information technology functions;

challenges in keeping existing customers and obtaining new customers; and

challenges in attracting and retaining key personnel.

As a result, we may not be able to realize the expected revenue growth and other benefits that we seek to achieve from the combination with Stratex. In addition, we may be required to spend additional time or money on integration that otherwise would be spent on the development and expansion of our business, production and services.

Uncertainties associated with the merger may cause us to lose significant customers.

In response to our merger with Stratex, or due to the diversion of our attention, current and potential customers may delay or defer decisions concerning their use of our products and services. We have not experienced significant contract terminations or other loss of business due to the merger. However, if our customers elect to terminate their contracts, the financial condition of the combined company may be materially and adversely affected.

Loss of key personnel could lead to loss of customers and a decline in revenue, or otherwise adversely affect our operations.

The success of the merger will depend in part upon our ability to retain key employees. Competition for qualified personnel in the microwave communications industry is intense. In addition, key employees may depart because of issues relating to the difficulty of or uncertainty regarding the integration of the businesses or because of uncertainties relating to their future compensation and benefits. If we are unable to attract and retain qualified individuals or if our costs to do so increase significantly, our business could be adversely affected.

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Risks Related to the Relationship between Harris and Us

We are and will continue to be controlled by Harris, whose interests may conflict with ours.

Harris owns no shares of our Class A common stock but all of the outstanding shares of our Class B common stock, through which it holds an approximate 57% interest of our outstanding equity which gives it approximately 57% of the voting power represented by our outstanding common stock. In addition, Harris has the right to appoint separately, as a class, five of our nine directors as long as the shares of our common stock held by Harris entitle Harris to cast a majority of the votes at an election of our directors (other than those directors appointed by Harris separately as a class). Harris also votes, along with our Class A stockholder, in the election of the four remaining directors, and as the holder of approximately 57% of our outstanding common shares holds a majority of the shares eligible to vote. In the election of the four remaining directors, Harris has agreed to vote for the persons nominated for such positions by our Nominating Committee, which is composed entirely of directors not appointed by Harris. For two years from January 26, 2007, Harris has agreed that it will not acquire or dispose of beneficial ownership in shares of our common stock, except under limited circumstances, and has no obligation to dispose of its interest in us following such two-year period. Accordingly, Harris is likely to continue to exercise significant influence over our business policies and affairs, including the composition of our board of directors and any action requiring the approval of our shareholders. The concentration of ownership also may make some transactions, including mergers or other changes in control, more difficult or impossible without the support of Harris. Harris interests may conflict with your interests as a shareholder. As a result, your ability to influence the outcome of matters requiring shareholder approval will be limited.

As the only holder of our outstanding Class B common stock, Harris has the unilateral right to elect, remove and replace, at any time, a majority of our board of directors, so long as the members elected, removed or replaced by Harris satisfy the requirements agreed to by the Company and Harris as set forth in an investor agreement entered into at the time of the Stratex acquisition. More specifically, Harris has agreed that, so long as it holds a majority of our voting common stock, it will have the right to appoint five of our nine directors and, until January 26, 2009, at least one of the Harris directors will meet the NASDAQ independence standards for audit committee members and at least one other Harris director will not be an employee of Harris or any of its subsidiaries (other than Harris Stratex or our subsidiaries). After January 26, 2009, Harris will be able to elect or replace all the Harris directors without regard to their relationship with Harris.

Harris has rights reflecting its controlling interest in our company. As a result, the ability of non-Harris stockholders to influence the outcome of matters requiring stockholder approval will be limited.

Harris' right to vote a majority of our outstanding voting stock enables it to control decisions without the consent of our other stockholders, including among others, with respect to:

- our business direction and policies;
- mergers or other business combinations, except until January 26, 2009;
- the acquisition or disposition of assets;
- the payment or nonpayment of dividends;
- determinations with respect to tax returns;
- our capital structure; and

amendments to our certificate of incorporation and bylaws.

In addition to the effects described above, Harris' control position could make it more difficult for us to raise capital or make acquisitions by issuing our capital stock. This concentrated ownership also might delay or prevent a change in control and may impede or prevent transactions in which our stockholders might otherwise receive a premium for their shares.

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We may have potential conflicts of interest with Harris relating to our ongoing relationship, and because of Harris controlling ownership in us, the resolution of these conflicts may not be favorable to us.

Conflicts of interest may arise between us and Harris in a number of areas relating to our ongoing relationship, including:

indemnification and other matters arising under the Formation, Contribution and Merger Agreement or other agreements;

intellectual property matters;

employee recruiting and retention;

competition for customers in the areas where Harris is permitted to do business under the non-competition agreement described below;

sales or distributions by Harris of all or any portion of its ownership interest in us, which could be to one of our competitors;

business combinations involving us; and

business opportunities that may be attractive to both Harris and us.

In addition, we may not be able to resolve any potential conflicts with Harris, and, even if we do, the resolution may be less favorable to us than if we were dealing with an unaffiliated party.

We have an investor agreement and non-competition agreement with Harris. The investor agreement provides that Harris and its affiliates are only permitted to enter into a transaction with us if the transaction is approved by a majority of our non-Harris-appointed directors or the terms are, in all material respects, no less favorable to us than those that could have been obtained from an informed, unrelated third party (taking into consideration all the then prevailing facts and circumstances). However, if a transaction has a fair market value of more than \$5 million, it must be approved in advance by a majority of our non-Harris-appointed directors, regardless of the nature of the terms. There are limited exceptions to these arrangements.

Pursuant to the terms of the non-competition agreement, Harris has agreed in general terms that, for five years following January 26, 2007, it cannot and will not permit any of its subsidiaries (other than us and our subsidiaries) to, engage in the development, manufacture, distribution and sale of microwave radio systems that are competitive with our current products or substantially similar to those products in form, fit and function when used in terrestrial microwave point-to-point communications networks that provide access and trunking of voice and data for telecommunications networks. Notwithstanding this restriction, Harris is permitted to purchase and resell products produced by and branded by persons unaffiliated with Harris and to develop, manufacture, distribute and sell microwave radios and related components for use by government entities.

We are and will continue to be a controlled company within the meaning of the NASDAQ rules and, as a result, rely on exemptions from certain corporate governance requirements that are designed to provide protection to shareholders of companies that trade on NASDAQ.

Harris owns more than 50% of the total voting power of our outstanding capital stock. Therefore, we are a controlled company under the NASDAQ rules. As a controlled company, we are entitled to utilize exemptions under the

NASDAQ standards that free us from the obligation to comply with some governance requirements under the NASDAQ rules, including the following:

a majority of our board of directors consists of independent directors;

our director nominees must either be selected, or recommended for selection by the board of directors, either by:

a majority of the independent directors; or

a nominations committee comprised solely of independent directors; and

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the compensation of our officers must be determined, or recommended to the board of directors for determination, either by:

a majority of the independent directors; or

a compensation committee comprised solely of independent directors.

Although a majority of our board of directors currently consists of independent directors and our compensation committee, which recommends the compensation of our officers to the board of directors, is comprised solely of independent directors, we may use these exemptions in the future and, as a result, may not provide the same protection afforded to shareholders of companies that are subject to all of the NASDAQ corporate governance requirements.

So long as Harris holds a majority of our securities outstanding and is entitled to vote generally in the election of our directors (other than those directors elected separately as a class by Harris), it will have the right to preserve its control position by participating in our equity offerings.

At any time that Harris holds a majority of our securities outstanding and entitled to vote generally in the election of our directors (other than those directors elected separately as a class by Harris), subject to limited exceptions, Harris has the right to participate in any offering of our capital stock including grants of equity to employees on the same terms and conditions as the offering and purchase up to that number of shares of our capital stock necessary to preserve its then voting percentage. As a result, Harris will be able to maintain its control position as long as it is able to and elects to participate in any offering of our capital stock.

Neither Harris nor any of its affiliates will have any fiduciary obligation or other obligation to offer corporate opportunities to us, and our certificate of incorporation and investor agreement with Harris expressly permit certain of our directors and our employees to offer certain corporate opportunities to Harris before us.

Our certificate of incorporation and the investor agreement with Harris provide that:

except (1) as otherwise provided in the non-competition agreement with Harris or (2) opportunities offered to an individual who is a director or officer of both Harris Stratex and Harris in writing solely in that person's capacity as our officer or director, Harris is free to compete with us in any activity or line of business; invest or develop a business relationship with any person engaged in the same or similar activities or businesses as us; do business with any of our customers; or employ any of our former employees;

neither Harris nor its affiliates have any duty to communicate its or their knowledge of or offer any potential business opportunity, transaction or other matter to us unless the opportunity was offered to the individual who is a director or officer of both Harris Stratex and Harris in writing solely in that person's capacity as our officer or director; and

if any director or officer of Harris, who is also an officer or director of Harris Stratex, becomes aware of a potential business opportunity, transaction or other matter (other than one expressly offered to that director or officer in writing solely in his or her capacity as our director or officer), that director or officer will have no duty to communicate or offer that opportunity to us and will be permitted to communicate or offer that opportunity to Harris (or its affiliates), and that director or officer will not be deemed to have acted in bad faith or in a manner inconsistent with our best interests or in a manner inconsistent with his or her fiduciary or other duties to us.

Two members of our board of directors are also directors and/or officers of Harris. As a result, Harris may gain the benefit of corporate opportunities that are presented to these directors.

In certain circumstances, Harris is permitted to engage in the same types of businesses that we conduct. If Harris elects to pursue opportunities in these areas, our ability to successfully operate and expand our business may be limited.

We have a non-competition agreement with Harris restricting its and its subsidiaries' ability to compete with us for five years from January 26, 2007 in specified lines of business related to our current business operations.

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However, the non-competition agreement will not restrict Harris from competing in a limited number of specific areas in which we operate, such as the development, manufacture and sale of wireless systems for use by government entities and the purchase and resale of non-Harris-branded wireless systems. Following the five-year term, there will be no restriction on Harris' ability to compete with us. If Harris elects to pursue opportunities in these areas or re-enters the business from which it is prohibited following the five-year term of the non-competition agreement, our ability to successfully operate and expand our business may be limited.

Sales by Harris of its interest in us could result in offers for shares of Class A common stock, the terms of which have been negotiated solely by Harris, and could adversely affect the price and liquidity of our Class A common stock.

Harris has agreed not to buy or sell our common stock until January 26, 2009, except with the consent of our non-Harris directors or to enable Harris to preserve its percentage interest in our outstanding common stock. From January 26, 2009 to January 26, 2011, Harris will be free to transfer majority control of us to a buyer, at a price and on terms acceptable to Harris in its sole discretion so long as the buyer offers to acquire all our outstanding voting shares not owned by Harris on the same terms offered to Harris or the non-Harris directors approve the transfer by Harris in advance. However, our non-Harris stockholders will have no role in determining the identity of the buyer and the amount and type of consideration to be received or any other terms of the transaction. If equity securities of the buyer are offered or if our other shareholders elect not to accept the buyer's offer, their continuing investment would be in a company that may be majority-controlled by a company or an investor selected only by Harris. After January 26, 2011, Harris will no longer be subject to any contractual limitations on the sale of its interest in Harris Stratex.

In addition, we have agreed to register for resale to the public shares of common stock which are held by Harris. Sales of our registered shares by Harris, or the perception that such sales might occur, could depress the trading price of our Class A common stock.

Other Risks

We may not be profitable.

As measured under U.S. generally accepted accounting principles (U.S. GAAP), we have incurred a net loss in each of the last five fiscal years. In fiscal 2007, we incurred a net loss of \$17.9 million and in fiscal 2006, we incurred a net loss of \$35.8 million. We can give no assurance that we will be consistently profitable, if at all.

We will face strong competition for maintaining and improving our position in the market, which could adversely affect our revenue growth and operating results.

The wireless interconnection and access business is a specialized segment of the wireless telecommunications industry and is extremely competitive. We expect competition in this segment to increase. Some of our competitors have more extensive engineering, manufacturing and marketing capabilities and significantly greater financial, technical and personnel resources than we have. In addition, some of our competitors have greater name recognition, broader product lines, a larger installed base of products and longer-standing customer relationships. Our competitors include established companies, such as Alcatel-Lucent, Eltek ASA, Ericsson, NEC and Nokia Siemens Networks, as well as a number of smaller public companies and private companies in selected markets. Some of our competitors are original equipment manufacturers or systems integrators through whom we market and sell our products, which means our business success may depend on these competitors to some extent. One or more of our largest customers could internally develop the capability to manufacture products similar to those manufactured or outsourced by us and, as a result, the demand for our products and services may decrease.

In addition, we compete for acquisition and expansion opportunities with many entities that have substantially greater resources than we have. Furthermore, our competitors may enter into business combinations in order to accelerate product development or to engage in aggressive price reductions or other competitive practices, resulting in even more powerful or aggressive competitors.

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Our ability to compete successfully will depend on a number of factors, including price, quality, availability, customer service and support, breadth of product line, product performance and features, rapid time-to-market delivery capabilities, reliability, timing of new product introductions by us, our customers and competitors, the ability of our customers to obtain financing and the stability of regional sociopolitical and geopolitical circumstances. We can give no assurances that we will have the financial resources, technical expertise, or marketing, sales, distribution, customer service and support capabilities to compete successfully, or that regional sociopolitical and geographic circumstances will be favorable for our successful operation.

If we do not successfully market our newest products, TRuepoint and Eclipse, our business would be harmed.

In 2004, Stratex began commercial shipments of the Eclipse product. Eclipse is a wireless transmission platform that uses a nodal architecture to provide multiplexing, routing and cross-connection functions, in addition to radio transmission, to reduce the network operators' deployment costs. To a large extent, our future profitability depends on the continued success and price competitiveness of Eclipse. In fiscal years 2005 and 2006, Stratex recorded \$39.6 million and \$134.5 million of revenue from sales of Eclipse products. In fiscal 2007, we recorded \$105.9 million in revenue during the five month period ended June 29, 2007 and Stratex recorded \$108.1 million in revenue during the seven month period ended January 26, 2007, for a total of \$214.0 million in revenue from sales of Eclipse products during our fiscal year 2007.

In 2004, Harris MCD began shipping TRuepoint products. To a large extent, our future profitability depends on the continued success of TRuepoint, especially in the North American market and worldwide high-capacity trunking markets. Because TRuepoint represents a new, innovative solution for wireless carriers, we cannot give assurances that we will be able to continue to successfully market this product. If TRuepoint does not achieve market acceptance to the extent expected by us, we may not be able to recoup the significant amount of research and development expenses associated with the development and introduction of this product and our business could be negatively impacted. Should the continued development and ramp-up of the TRuepoint platform be unsuccessful, there would be a material adverse effect on our business, financial condition and results of operations.

Our average sales prices may decline in the future.

Currently, manufacturers of digital microwave telecommunications equipment are experiencing, and are likely to continue to experience, declining sales prices. This price pressure is likely to result in downward pricing pressure on our products and services. As a result, we are likely to experience declining average sales prices for our products. Our future profitability will depend upon our ability to improve manufacturing efficiencies, reduce costs of materials used in our products, and to continue to introduce new lower-cost products and product enhancements. If we are unable to respond to increased price competition, our business, financial condition and results of operations will be harmed. Because customers frequently negotiate supply arrangements far in advance of delivery dates, we may be required to commit to price reductions for our products before we are aware of how, or if, cost reductions can be obtained. As a result, current or future price reduction commitments, and any inability on our part to respond to increased price competition, could harm our business, financial condition and results of operations.

Because a significant amount of our revenue may come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business.

Sales of our products and services historically have been concentrated in a small number of customers. Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, as well as private network users such as public safety agencies; government institutions; and utility, pipeline, railroad and other industrial enterprises that operate broadband wireless networks. We had revenue from a single external customer that exceeded 10% of our total revenue during fiscal 2006, but not during

fiscal 2007. Although we have a large customer base, during any given quarter, a small number of customers may account for a significant portion of our revenue.

It is possible that a significant portion of our future product sales also could be concentrated in a limited number of customers. In addition, product sales to major customers have varied widely from period to period. The

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loss of any existing customer, a significant reduction in the level of sales to any existing customer, or our inability to gain additional customers could result in declines in our revenue or an inability to grow revenue. If these revenue declines occur or if we are unable to create revenue growth, our business, financial condition, and results of operations may be adversely affected.

We may be subject to litigation regarding intellectual property associated with our wireless business; this litigation could be costly to defend and resolve, and could prevent us from using or selling the challenged technology.

The wireless telecommunications industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in often protracted and expensive litigation. Any litigation regarding patents or other intellectual property could be costly and time-consuming and could divert our management and key personnel from our business operations. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. Such litigation or claims could result in substantial costs and diversion of resources. In the event of an adverse result in any such litigation, we could be required to pay substantial damages, cease the use and transfer of allegedly infringing technology or the sale of allegedly infringing products and expend significant resources to develop non-infringing technology or obtain licenses for the infringing technology. We can give no assurances that we would be successful in developing such non-infringing technology or that any license for the infringing technology would be available to us on commercially reasonable terms, if at all. This could have a materially adverse effect on our business, results of operation, financial condition, competitive position and prospects.

As a subsidiary of Harris, we may have the benefit of one or more existing cross-license agreements between Harris and certain third parties, which may help protect us from infringement claims. If we cease to be a subsidiary of Harris, those benefits will be lost.

Due to the significant volume of international sales we expect, we may be susceptible to a number of political, economic and geographic risks that could harm our business.

We are highly dependent on sales to customers outside the U.S. In fiscal 2007, our sales to international customers accounted for 67% of total revenue. During fiscal 2006 and 2005, sales to international customers accounted for 55% and 51% of our revenue, respectively. Our dependence on international customers is expected to increase, due to our merger with Stratex, since approximately 95% of its revenue has historically been derived from international markets. Also, significant portions of our international sales are in less developed countries. Our international sales are likely to continue to account for a large percentage of our products and services revenue for the foreseeable future. As a result, the occurrence of any international, political, economic or geographic event that adversely affects our business could result in a significant decline in revenue.

Some of the risks and challenges of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in international currency exchange rates;
- imposition of tariffs and other barriers and restrictions;
- management and operation of an enterprise spread over various countries;
- the burden of complying with a variety of laws and regulations in various countries;

application of the income tax laws and regulations of multiple jurisdictions, including relatively low-rate and relatively high-rate jurisdictions, to our sales and other transactions, which results in additional complexity and uncertainty;

general economic and geopolitical conditions, including inflation and trade relationships;

war and acts of terrorism;

natural disasters;

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currency exchange controls; and

changes in export regulations.

Our industry is volatile and subject to frequent changes, and we may not be able to respond effectively or in a timely manner to these changes.

We participate in a highly volatile industry that is characterized by vigorous competition for market share and rapid technological development. These factors could result in aggressive pricing practices and growing competition both from start-up companies and from well-capitalized telecommunication systems providers, which could decrease our revenue. In response to changes in our industry and market conditions, we may restructure our activities to more strategically realign our resources. This includes assessing whether we should consider disposing of, or otherwise exiting, certain businesses, and reviewing the recoverability of our tangible and intangible assets. Any decision to limit investment in our tangible and intangible assets or to dispose of or otherwise exit businesses may result in the recording of accrued liabilities for special charges, such as workforce reduction costs. Additionally, accounting estimates with respect to the useful life and ultimate recoverability of our carrying basis of assets could change as a result of such assessments and decisions, and could harm our results of operations.

If we fail to develop and maintain distribution and licensing relationships, our revenue may decrease.

Although a majority of our sales are made through our direct sales force, we also will market our products through indirect sales channels such as independent agents, distributors, OEMs and systems integrators. These relationships enhance our ability to pursue major contract awards and, in some cases, are intended to provide our customers with easier access to financing and a greater variety of equipment and service capabilities, which an integrated system provider should be able to offer. We may not be able to maintain and develop additional relationships or, if additional relationships are developed, they may not be successful. Our inability to establish or maintain these distribution and licensing relationships could restrict our ability to market our products and thereby result in significant reductions in revenue. If these revenue reductions occur, our business, financial condition and results of operations would be harmed.

The inability of our subcontractors to perform, or our key suppliers to manufacture and deliver materials, could cause our products to be produced in an untimely or unsatisfactory manner, or not at all.

Our manufacturing operations, which are substantially subcontracted, are highly dependent upon the delivery of materials by outside suppliers in a timely manner. Also, we depend in part upon subcontractors to assemble major components and subsystems used in our products in a timely and satisfactory manner. We generally do not enter into long-term or volume purchase agreements with any of our suppliers, and we cannot provide assurances that such materials, components and subsystems will be available for our use at such time and in such quantities as we require, if at all. In addition, we have historically obtained some of our supplies from a single source. If these suppliers are unable to provide supplies and products to us because they are no longer in business or because they discontinue a certain supply or product we need, we may not be able to fill orders placed by our customers on a timely basis or at all. Our inability to develop alternative sources of supply quickly and on a cost-effective basis could materially impair our ability to manufacture and timely deliver our products to our customers. We cannot give assurances that we will not experience material supply problems or component or subsystem delays in the future. Also, our subcontractors may not be able to maintain the quality of our products, which might result in a large number of product returns by customers and could harm our business, financial condition and results of operations.

Additional risks associated with the outsourcing of our manufacturing operations to MTI in Taiwan and its subsidiary in the People's Republic of China could include, among other things: political risks due to political issues between Taiwan and The People's Republic of China; risk of natural disasters in Taiwan, such as earthquakes and typhoons; economic and regulatory developments; and other events leading to the disruption of manufacturing operations.

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Consolidation within the telecommunications industry could result in a decrease in our revenue.

The telecommunications industry has experienced significant consolidation among its participants, and we expect this trend to continue. Some operators in this industry have experienced financial difficulty and have filed, or may file, for bankruptcy protection. Other operators may merge and one or more of our competitors may supply products to the customers of the combined company following those mergers. This consolidation could result in purchasing decision delays and decreased opportunities for us to supply products to companies following any consolidation. This consolidation may also result in lost opportunities for cost reduction and economies of scale. In addition, see the risks discussed in the factor above titled *Because a significant amount of our revenue may come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business.*

Our success will depend on new product introductions and acceptance.

The market for our products is characterized by rapid technological change, evolving industry standards and frequent new product introductions. Our future success will depend, in part, on continuous, timely development and introduction of new products and enhancements that address evolving market requirements and are attractive to customers. We believe that successful new product introductions provide a significant competitive advantage because of the significant resources committed by customers in adopting new products and their reluctance to change products after these resources have been expended. We have spent, and expect to continue to spend, significant resources on internal research and development to support our effort to develop and introduce new products and enhancements. To the extent that we fail to introduce new and innovative products that are adopted by customers, we could fail to obtain an adequate return on these investments and could lose market share to our competitors, which could be difficult or impossible to regain.

Our customers may not pay for products and services in a timely manner, or at all, which would decrease our income and adversely affect our working capital.

Our business requires extensive credit risk management that may not be adequate to protect against customer nonpayment. Risks of non-payment by customers is a significant focus of our business. We expect a significant amount of future revenue to come from international customers, many of whom will be startup telecom operators in developing countries. We do not generally expect to obtain collateral for sales, although we require letters of credit or credit insurance as appropriate for international customers. For information regarding the percentage of revenue attributable to certain key customers, see the risks discussed in the factor above titled *Because a significant amount of our revenue come from a limited number of customers, the termination of any of these customer relationships may adversely affect our business.* Our historical accounts receivable balances have been concentrated in a small number of significant customers. Unexpected adverse events impacting the financial condition of our customers, bank failures or other unfavorable regulatory, economic or political events in the countries in which we do business may impact collections and adversely impact our business, require increased bad debt expense or receivable write-offs and adversely impact our cash flows, financial condition and operating results.

Rapid changes in the microwave radio industry and the frequent introduction of lower cost components for our product offerings may result in excess inventory that we cannot sell or may be required to sell at distressed prices, and may result in longer credit terms to our customers.

The rapid changes and evolving industry standards that characterize the market for our products require frequent modification of products for us to be successful. These rapid changes could result in the accumulation of component inventory parts that become obsolete as modified products are introduced and adopted by customers. We have experienced significant inventory write-offs in recent years, and because of the rapid changes that characterize the market, we also may be forced to write down excess inventory from time to time. Moreover, these same factors may

force us to significantly reduce prices for older products or extend more and longer credit terms to customers, which could negatively impact our cash and possibly result in higher bad debt expense. More generally, we cannot give assurances that we will be successful in matching our inventory purchases with anticipated shipment volumes. As a result, we may fail to control the amount of inventory on hand and may be forced to write off additional

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amounts. Such additional inventory write-offs, if required, would adversely impact our cash flows, financial condition and operating results.

The unpredictability of our quarter-to-quarter results may harm the trading price of our Class A common stock.

Our quarterly operating results may vary significantly for a variety of reasons, many of which are outside our control. These factors could harm our business and include, among others:

volume and timing of our product orders received and delivered during the quarter;

our ability and the ability of our key suppliers to respond to changes on demand as needed;

our suppliers' inability to perform and deliver on time as a result of their financial condition, component shortages or other supply chain constraints;

our sales cycles can be lengthy;

continued market expansion through strategic alliances;

continued timely rollout of new product functionality and features;

increased competition resulting in downward pressures on the price of our products and services;

unexpected delays in the schedule for shipments of existing products and new generations of the existing platforms;

failure to realize expected cost improvement throughout our supply chain;

order cancellations or postponements in product deliveries resulting in delayed revenue recognition;

seasonality in the purchasing habits of our customers;

war and acts of terrorism;

natural disasters;

the ability of our customers to obtain financing to enable their purchase of our products;

fluctuations in international currency exchange rates;

regulatory developments including denial of export and import licenses; and

general economic conditions worldwide.

Our quarterly results are expected to be difficult to predict and delays in product delivery or closing a sale can cause revenue and net income or loss to fluctuate significantly from anticipated levels. In addition, we may increase spending in response to competition or in pursuit of new market opportunities. Accordingly, we cannot provide assurances that we will be able to achieve profitability in the future or that if profitability is attained, that we will be able to sustain profitability, particularly on a quarter-to-quarter basis.

If we are unable to adequately protect our intellectual property rights, we may be deprived of legal recourse against those who misappropriate our intellectual property.

Our ability to compete will depend, in part, on our ability to obtain and enforce intellectual property protection for our technology in the U.S. and internationally. We rely upon a combination of trade secrets, trademarks, copyrights, patents and contractual rights to protect our intellectual property. In addition, we enter into confidentiality and invention assignment agreements with our employees, and enter into non-disclosure agreements with our suppliers and appropriate customers so as to limit access to and disclosure of its proprietary information. We cannot give assurances that any steps taken by us will be adequate to deter misappropriation or impede independent third-party development of similar technologies. In the event that such intellectual property arrangements are insufficient, our business, financial condition and results of operations could be harmed. We have significant operations in the U.S., United Kingdom, Singapore and New Zealand, and outsourcing arrangements in Asia. We

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cannot provide assurances that the protection provided to our intellectual property by the laws and courts of particular nations will be substantially similar to the protection and remedies available under U.S. law. Furthermore, we cannot provide assurances that third parties will not assert infringement claims against us based on intellectual property rights and laws in other nations that are different from those established in the U.S.

If sufficient radio frequency spectrum is not allocated for use by our products, and we fail to obtain regulatory approval for our products, our ability to market our products may be restricted.

Radio communications are subject to regulation by U.S. and foreign laws and international treaties. Generally, our products need to conform to a variety of United States and international requirements established to avoid interference among users of transmission frequencies and to permit interconnection of telecommunications equipment. Any delays in compliance with respect to our future products could delay the introduction of such products.

In addition, we will be affected by the allocation and auction of the radio frequency spectrum by governmental authorities both in the U.S. and internationally. Such governmental authorities may not allocate sufficient radio frequency spectrum for use by our products or we may not be successful in obtaining regulatory approval for our products from these authorities. Historically, in many developed countries, the unavailability of frequency spectrum has inhibited the growth of wireless telecommunications networks. In addition, to operate in a jurisdiction, we must obtain regulatory approval for our products. Each jurisdiction in which we market our products has its own regulations governing radio communications. Products that support emerging wireless telecommunications services can be marketed in a jurisdiction only if permitted by suitable frequency allocations, auctions and regulations. The process of establishing new regulations is complex and lengthy. If we are unable to obtain sufficient allocation of radio frequency spectrum by the appropriate governmental authority or obtain the proper regulatory approval for our products, our business, financial condition and results of operations may be harmed.

Negative changes in the capital markets available for telecommunications and mobile cellular projects may result in reduced revenue and excess inventory that we cannot sell or may be required to sell at distressed prices, and may result in longer credit terms to our customers.

Many of our current and potential customers require significant capital funding to finance their telecommunications and mobile cellular projects, which include the purchase of our products and services. Although in the last year we have seen some growth in capital spending in the wireless telecommunications market, changes in capital markets worldwide could negatively impact available funding for these projects and may continue to be unavailable to some customers. As a result, the purchase of our products and services may be slowed or halted. Reduction in demand for our products has resulted in excess inventories on hand in the past, and could result in additional excess inventories in the future. If funding is unavailable to our customers or their customers, we may be forced to write down excess inventory. In addition, we may have to extend more and longer credit terms to our customers, which could negatively impact our cash and possibly result in higher bad debt expense. We cannot give assurances that we will be successful in matching our inventory purchases with anticipated shipment volumes. As a result, we may fail to control the amount of inventory on hand and may be forced to write off additional amounts. Such additional inventory write-offs, if required, would decrease our profits.

In addition, in order to maintain competitiveness in an environment of restrictive third-party financing, we may have to offer customer financing that is recorded on our balance sheet. This may result in deferred revenue recognition, additional credit risk and substantial cash usage.

Our stock price may be volatile, which may lead to losses by investors.

Announcements of developments related to our business, announcements by competitors, quarterly fluctuations in our financial results and general conditions in the telecommunications industry in which we compete, or the economies of the countries in which we do business and other factors could cause the price of our common stock to fluctuate, perhaps substantially. In addition, in recent years the stock market has experienced extreme price fluctuations, which have often been unrelated to the operating performance of affected companies. These factors

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and fluctuations could lower the market price of our common stock. Our stock is currently listed on the NASDAQ Global Market.

If we are unable to favorably assess the effectiveness of our internal controls over financial reporting, we may not be able to accurately report our financial results. As a result, current and potential shareholders could lose confidence in our financial reporting, which could adversely affect our stock price.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. Pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (also known as the SOX Act), and beginning with our Annual Report on Form 10-K for the fiscal year ending June 27, 2008, our management will be required to certify to and report on, and its independent registered public accounting firm will be required to attest to, the effectiveness of our internal controls over financial reporting as of June 27, 2008. If we fail to maintain effective internal controls over financial reporting, our operating results could be misstated, our reputation may be harmed and the trading price of our stock could be negatively impacted. As described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Stratex's Annual Report on Form 10-K for the year ended March 31, 2006, as amended, Stratex determined there were two material weaknesses in its internal control over financial reporting as defined in standards established by the Public Company Accounting Oversight Board (PCAOB). In general, a material weakness (as defined in PCAOB Auditing Standard No. 2) is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement in the annual or interim financial statements will not be prevented or detected. In fiscal 2006, Stratex devoted significant resources to remediate and improve its internal controls related to these material weaknesses. Stratex believes that these efforts have remediated the concerns that gave rise to the material weakness related to revenue recognition. However, due to the assessment of Stratex's internal controls over financial reporting as of March 31, 2006, Stratex had identified the continuation of a material weakness in the review of the financial statements of international operations and the period-end financial close and reporting process for Stratex's consolidated operations. Historically, Harris has only been required to certify or report on or receive an attestation from its independent registered public accounting firm with respect to Harris, taken as a whole, and not MCD in particular. We are currently in the process of reviewing, documenting and testing our internal controls over financial reporting. We will continue reviewing our internal controls over the financial close and reporting process, and will implement additional controls as needed. However, we cannot be certain that our controls over our financial processes and reporting will be adequate in the future, and we may incur significant additional expenses in complying with these provisions of the SOX Act. Any failure to maintain effective internal controls over financial reporting could cause us to prepare inaccurate financial statements, subject us to a misappropriation of assets or cause us to fail to meet our SEC reporting obligations on a timely basis, which could materially and adversely affect the trading price of our Class A common stock.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. *Properties.*

As of June 29, 2007, we conducted operations in 39 facilities in the