Harris Stratex Networks, Inc.
Form 10-Q/A
September 25, 2008

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

(Mark One)

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

For the quarterly period ended March 28, 2008

Or

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

For the transition period from __________ to __________

Commission File Number 001-33278

HARRIS STRATEX NETWORKS, INC.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Class of Stock	**Shares Outstanding as of May 2, 2008**
Class A Common Stock, par value $0.01 per share	25,556,002
Class B Common Stock, par value $0.01 per share	32,913,377
Total shares of common stock outstanding	58,469,379

HARRIS STRATEX NETWORKS, INC.
FORM 10-Q/A
For the Quarter Ended March 28, 2008
INDEX

This Quarterly Report on Form 10-Q/A contains trademarks of Harris Stratex Networks, Inc.

Table of Contents

EXPLANATORY NOTE

We have restated our unaudited condensed consolidated financial statements for the quarter and three quarters ended March 28, 2008 and March 30, 2007 in this Amendment to Form 10-Q (the Form 10-Q/A) to our Quarterly Report on Form 10-Q for the quarter ended and the three quarters ended March 28, 2008. This Form 10-Q/A also reflects the restatement of Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations and Item 4 Controls and Procedures for the quarter and three quarters ended March 28, 2008 and March 30, 2007. This restatement also affects, and is reflected in other items in this Form 10-Q/A.

Previously filed (i) interim consolidated financial statements for the quarter and three quarters ended March 28, 2008 and March 30, 2007, respectively (ii) annual consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 included in the Company s Annual Report on Form 10-K for the year ended June 29, 2007 and (iii) related reports of its independent registered public accountants should no longer be relied upon.

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

§ Errors in project work in process inventory accounts within a cost accounting system at one location that resulted in project cost variances not being recorded to cost of sales in a timely manner.

§ Errors in the reconciliation of inventory and intercompany accounts receivable accounts which resulted in an overstatement of inventory and accounts receivable in prior years.

§ Errors in prior years product warranty liability accruals which resulted in the improper exclusion of costs associated with technical assistance service provided by the Company under its standard warranty policy.

The effect of these restatement items decreased shareholders equity cumulatively by $15.3 million as of March 28, 2008 and $11.6 million as of June 29, 2007. Net income decreased by $2.1 million for the quarter ended March 28, 2008, and net loss increased by $1.4 million for the quarter ended March 30, 2007. Net income decreased by $3.7 million for the three quarters ended March 28, 2008, and net loss increased by $2.0 million for the three quarters ended March 30, 2007.

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

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

(Unaudited)

	Quarter Ended		Three Quarters Ended	
	March 28, 2008 (Restated)	**March 30, 2007 (Restated)**	**March 28, 2008 (Restated)**	**March 30, 2007 (Restated)**
	(In millions, except per common share amounts)			
Revenue from product sales and services:				
Revenue from external product sales	$ 147.3	$ 105.6	$ 444.8	$ 270.0
Revenue from product sales with Harris Corporation	1.5	2.3	6.4	3.7
Total revenue from product sales	148.8	107.9	451.2	273.7
Revenue from services	29.4	31.1	80.4	60.1
Total revenue from product sales and services	178.2	139.0	531.6	333.8
Cost of product sales and services:				
Cost of external product sales	(103.9)	(78.4)	(311.0)	(181.7)
Cost of product sales with Harris Corporation	(0.6)	(1.7)	(4.2)	(4.1)
Total cost of product sales	(104.5)	(80.1)	(315.2)	(185.8)
Cost of services	(21.6)	(23.5)	(60.2)	(44.9)
Cost of sales billed from Harris Corporation		(0.5)	(4.6)	(3.2)
Amortization of purchased technology	(1.8)	(1.2)	(5.3)	(1.2)
Total cost of product sales and services	(127.9)	(105.3)	(385.3)	(235.1)
Gross margin	50.3	33.7	146.3	98.7
Research and development expenses	(11.5)	(11.1)	(34.8)	(26.9)
Selling and administrative expenses	(29.4)	(26.1)	(90.9)	(57.2)
Selling and administrative expenses with Harris Corporation	(1.7)	(1.6)	(5.2)	(4.7)
Total research, development, selling and administrative expenses	(42.6)	(38.8)	(130.9)	(88.8)
Amortization of identifiable intangible assets	(1.9)	(3.0)	(5.6)	(3.0)
Acquired in-process research and development		(15.3)		(15.3)
Restructuring charges		(1.3)	(8.4)	(2.0)
Corporate allocations expense from Harris Corporation		(0.3)		(3.7)
Operating income (loss)	5.8	(25.0)	1.4	(14.1)
Interest income	0.3	0.9	1.4	1.2
Interest expense	(0.7)	(1.1)	(2.2)	(1.6)

Income (loss) before provision for income taxes		5.4		(25.2)		0.6		(14.5)
(Provision)benefit for income taxes		(0.2)		0.6		1.2		(0.1)
Net income (loss)	$	5.2	$	(24.6)	$	1.8	$	(14.6)
Net income (loss) per common share of Class A and Class B common stock (1):								
Basic	$	0.09	$	(0.61)	$	0.03	$	(1.08)
Diluted(2)	$	0.05	$	(0.61)	$	(0.02)	$	(1.08)
Basic weighted average shares outstanding (3)		58.4		40.3		58.4		13.5
Diluted weighted average shares outstanding (3)		58.7		40.3		58.9		13.5

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

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

(see Note Q).

(3) Prior to January 26, 2007, the Company was a division of Harris Corporation and there were no shares outstanding for purposes of income or loss calculations. Basic and diluted weighted average shares outstanding are calculated based on the daily outstanding shares, reflecting the fact that no shares were outstanding prior to January 26, 2007.

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	March 28, 2008 (Restated)	June 29, 2007 (Restated)
	(In millions, except share amounts)	
Assets		
Current Assets		
Cash and cash equivalents	$ 97.0	$ 69.2
Short-term investments and available for sale securities	3.4	20.4
Receivables	195.9	183.1
Unbilled costs	35.7	36.9
Inventories	108.7	124.2
Deferred income taxes	6.5	4.1
Other current assets	17.5	21.7
Total current assets	464.7	459.6
Long-term Assets		
Property, plant and equipment	74.4	80.0
Goodwill	316.5	324.7
Identifiable intangible assets	133.2	144.5
Capitalized software	9.6	9.7
Non-current portion of notes receivable	3.4	5.3
Non-current deferred income taxes		0.5
Other assets	3.0	1.2
Total long-term assets	540.1	565.9
Total Assets	$ 1,004.8	$ 1,025.5
Liabilities and Shareholders Equity		
Current Liabilities		
Short-term debt	$	$ 1.2
Current portion of long-term debt	6.0	10.7
Accounts payable	81.8	84.7
Compensation and benefits	12.5	11.5
Other accrued items	45.9	45.8
Advance payments and unearned income	26.7	22.3
Income taxes payable	3.6	6.8
Restructuring liabilities	6.7	10.8
Current portion of long-term capital lease obligation to Harris Corporation	1.6	3.1
Due to Harris Corporation	20.5	17.2
Total Current Liabilities	205.3	214.1
Long-term Liabilities		
Long-term debt	5.0	8.8

Long-term portion of capital lease obligation to Harris Corporation	1.6	2.8
Restructuring and other long-term liabilities	6.2	11.8
Redeemable preference shares	8.3	8.3
Warrants	0.6	3.9
Deferred income taxes	16.8	29.4
Total Liabilities	243.8	279.1
Commitments and contingencies		
Shareholders Equity		
50,000,000 shares authorized; none issued		
Common stock, Class A, $0.01 par value; 300,000,000 shares authorized; issued and outstanding 25,554,877 shares at March 28, 2008 and 25,400,856 shares at June 29, 2007	0.3	0.3
Common stock, Class B $0.01 par value; 100,000,000 shares authorized; issued and outstanding 32,913,377 shares at March 28, 2008 and June 29, 2007	0.3	0.3
Additional paid-in-capital	778.6	770.0
Accumulated deficit	(22.4)	(24.2)
Accumulated other comprehensive income	4.2	
Total Shareholders Equity	761.0	746.4
Total Liabilities and Shareholders Equity	$ 1,004.8	$ 1,025.5

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	Three Quarters Ended	
	March 28, 2008 (Restated)	March 30, 2007 (Restated)
	(In millions)	
Operating Activities		
Net income (loss)	$ 1.8	$ (14.6)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Amortization of identifiable intangible assets acquired in the Stratex acquisition	10.9	19.4
Other non-cash charges related to the Stratex acquisition		5.4
Depreciation and amortization of property, plant and equipment and capitalized software	15.2	12.2
Non-cash stock-based compensation expense	5.3	1.0
Non-cash charges for restructuring and inventory write-downs	7.8	
Decrease in fair value of warrants	(3.2)	
Deferred income tax (benefit) expense	(2.5)	0.1
Changes in operating assets and liabilities:		
Receivables	(10.9)	2.7
Unbilled costs and inventories	13.1	(29.1)
Accounts payable and accrued expenses	(1.4)	(1.8)
Advance payments and unearned income	4.4	4.8
Due to Harris Corporation	4.6	(3.7)
Decrease in restructuring liabilities and other	(9.7)	(7.9)
Net cash provided by (used in) operating activities	35.4	(11.5)
Investing Activities		
Cash acquired from the Stratex acquisition, net of acquisition costs of $12.7 million		20.4
Purchases of short-term investments and available for sale securities	(8.3)	(33.2)
Sales of short-term investments and available for sale securities	25.3	17.8
Additions of property, plant and equipment	(6.3)	(4.4)
Additions of capitalized software	(7.9)	(2.8)
Net cash provided by (used in) investing activities	2.8	(2.2)
Financing Activities		
Decrease in short-term debt	(1.2)	
Proceeds from issuance of redeemable preference shares		8.3
Payments on long-term debt	(8.4)	(2.6)
Proceeds from issuance of Class B common stock to Harris Corporation		26.9
Payments on long-term capital lease obligation to Harris Corporation	(3.2)	
Proceeds from exercise of former Stratex stock options	1.5	1.4
Registration costs for Class A common stock issued in Stratex acquisition		(1.1)

Proceeds from exercise of former Stratex warrants		0.2
Net cash and other transfers from Harris Corporation prior to the Stratex acquisition		24.1
Net cash (used in) provided by financing activities	(11.3)	57.2
Effect of exchange rate changes on cash and cash equivalents	0.9	(2.9)
Net increase in cash and cash equivalents	27.8	40.6
Cash and cash equivalents, beginning of year	69.2	13.8
Cash and cash equivalents, end of period	$ 97.0	$ 54.4

See accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 28, 2008
(Unaudited)

Note A Basis of Presentation

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

The results for the quarter ended March 28, 2008 are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet at June 29, 2007 has been derived from our audited financial statements but does not include all the information and footnotes required by generally accepted accounting principles in the United States for annual financial statements. We provide complete financial statements in our Annual Report on Form 10-K/A, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q/A should be read in conjunction with the Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K/A for the fiscal year ended June 29, 2007 (Fiscal 2007 Form 10-K/A).

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

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

For periods prior to January 26, 2007, our historical financial statements are presented on a carve-out basis and reflect the assets, liabilities, revenue and expenses that were directly attributable to MCD as it was operated within Harris. Our condensed consolidated statements of operations include all of the related costs of doing business, including an allocation of certain general corporate expenses of Harris, which were in support of MCD, including costs for finance, legal, treasury, purchasing, quality, environmental, safety, human resources, tax, audit and public relations departments and other corporate and infrastructure costs. We were allocated $0.3 million and $3.7 million for these general corporate expenses from Harris during the quarter and three quarters ended March 30, 2007. These costs represented approximately 6.1% and 9.4% of the total cost of these allocated services in the quarter and three quarters ended March 30, 2007. These cost allocations were based primarily on a ratio of our revenue to total Harris revenue, multiplied by the total headquarter s expense of Harris. The allocation of Harris overhead expenses to us concluded on January 26, 2007. We believe these allocations were made on a reasonable basis. Harris currently owns approximately 56% of our common stock.

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

Note B Recent Accounting Pronouncements

Accounting for Uncertain Tax Positions

On June 30, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48 Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a more-likely-than-not threshold for the recognition and derecognition of tax positions, provides guidance on the accounting for interest and penalties relating to tax positions and requires that the cumulative effect of applying the provisions of FIN 48 shall be reported as an adjustment to the opening balance in retained earnings (deficit) or other appropriate components of equity or net assets. Refer to *Note O Income Taxes*, for additional information relating to our accounting for FIN 48 and income taxes.

Fair Value Measurements

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

Accounting for Business Combinations

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

Accounting for Noncontrolling Interests in Consolidated Financial Statements

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

Disclosures about Derivative Instruments and Hedging Activities

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

Table of Contents

Note C Restatement of Previously Issued Financial Statements

As previously announced on July 30, 2008, Harris Stratex Networks, Inc. and its Audit Committee concluded that our consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 and for the first three quarters ended June 27, 2008 would be restated for the correction of errors contained in those consolidated financial statements. The effect of these restatement items decreased shareholders equity cumulatively by $15.3 million as of March 28, 2008 and $11.6 million as of June 29, 2007. Previously reported net income decreased by $2.1 million for the quarter ended March 28, 2008, and net loss increased by $1.4 million for the quarter ended March 30, 2007. Net income decreased by $3.7 million for the three quarters ended March 28, 2008, and net loss increased by $2.0 million for the three quarters ended March 30, 2007. The restatement had no impact on our net cash flows from operations, financing or investing activities. Details of the nature of the corrections are as follows:

Inventory

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

During fiscal year 2008, we determined that this review had not been performed in a manner sufficient to identify significant project cost variances remaining in certain inventory accounts, and that the resulting errors impacted prior quarters and prior years. To correct this error, we decreased work in process inventory compared to amounts previously recorded by $14.1 million and $9.6 million as of March 28, 2008 and June 29, 2007, respectively, and increase cost of external product sales and services by $1.9 million, and $4.5 million and $2.0 million and $2.8 million for the quarter and three quarters ended March 28, 2008 and March 30, 2007, respectively.

Inventory and Intercompany Account Reconciliations

During the course of the year end close for the fiscal year ending June 27, 2008, we determined that certain account reconciliation adjustments recorded in the fourth quarter of fiscal 2008, which related primarily to inventory and intercompany accounts receivable accounts, should have been recorded in prior quarters or prior years. We determined that certain manual controls had not been performed for certain periods, resulting in accounting errors. More specifically, we identified errors in the work in process inventory balances resulting from incorrect account reconciliation processes. To correct this error, we decreased inventory compared to amounts previously recorded by $2.5 million and $1.9 million as of as of March 28, 2008 and June 29, 2007, respectively, and increased cost of external sales by $0.8 million and $0.6 million and $0.3 million and $0.1 million for the quarter and three quarters ended March 28, 2008 and March 30, 2007, respectively

We also identified errors in accounts receivable balances as a result of control deficiencies surrounding the recording and elimination of intercompany transactions. To correct this error, we decreased accounts receivable by $3.1 million and $2.2 million as of March 28, 2008 and June 29, 2007, respectively, and increased selling and administrative expenses by $0.7 million and $0.9 million for the quarter and three quarters ended March 28, 2008.

Warranty Liability

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

Deferred Tax Liability

Taking into consideration the restatement adjustments described above, we reassessed our income tax provision in accordance with Statement 109. As a result, we recorded an adjustment to decrease the deferred tax liability balance, by $4.4 million and $2.1 million as of March 28, 2008 and June 29, 2007, respectively, and to decrease the income tax provision by $1.3 million and $2.3 million for the quarter and three quarters ended March 28, 2008, respectively, and to decrease the income tax benefit by $0.9 million and $2.1 million for the quarter and three quarters ended March 30, 2007, respectively.

9

Table of Contents

The following tables present the impact of the restatement adjustments on our previously reported consolidated balance sheets as of March 28, 2008 and June 29, 2007, as well as the impact on our previously reported consolidated statements of operations and cash flows for the quarter and three quarters ended March 28, 2008 and March 30, 2007.

QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	For the quarter ended March 28, 2008		
	As Previously Reported	Adjustments	As Restated
		(In millions)	
Revenue	$ 178.2	$	$ 178.2
Gross margin	53.0	(2.7)	50.3
Income from operations	9.2	(3.4)	5.8
Net income	7.3	(2.1)	5.2
Basic net income per common share	$ 0.12	$ (0.03)	$ 0.09
Diluted net income per common share	$ 0.09	$ (0.04)	$ 0.05

	For the quarter ended March 30, 2007		
	As Previously Reported	Adjustments	As Restated
		(In millions)	
Revenue	$ 139.0	$	$ 139.0
Gross margin	36.0	(2.3)	33.7
Loss from operations	(22.7)	(2.3)	(25.0)
Net loss	(23.2)	(1.4)	(24.6)
Basic and diluted net loss per common share	$ (0.58)	$ (0.03)	$ (0.61)