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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-Q**

**(Mark One)**

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

**For the quarterly period ended July 1, 2022**

**or**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| ☐ | | | TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 | | |
|  | | | **For the transition period from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_\_\_\_\_\_** | | |

Commission File Number 1-3863

**L3HARRIS TECHNOLOGIES, INC.**

(Exact name of registrant as specified in its charter)

|  |  |  |  |  |  |  |  |  |  |  |  |
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|  |  |  |  |  |  |  |  |  |  |  |  |
| **Delaware** | | | | | |  | | | **34-0276860** | | |
| (State or other jurisdiction of incorporation or organization) | | | | | |  | | | (I.R.S. Employer Identification No.) | | |

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **1025 West NASA Boulevard** | | | | | | | | |  | | |  | | |
| **Melbourne,** | | | **Florida** | | |  | | |  | | | **32919** | | |
| (Address of principal executive offices) | | | | | | | | |  | | | (Zip Code) | | |

**Registrant’s telephone number, including area code: (321) 727-9100**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Securities registered pursuant to Section 12(b) of the Act:** | | | | | | | | | | | | | | |
| **Title of each class** | | |  | | | **Trading Symbol(s)** | | |  | | | **Name of each exchange on which registered** | | |
| Common Stock, par value $1.00 per share | | |  | | | LHX | | |  | | | New York Stock Exchange | | |

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.              þ   Yes   o  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).          þ   Yes   o  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| Large accelerated filer | | |  | | | þ | | |  | | | Accelerated filer | | |  | | | ☐ | | |
| Non-accelerated filer | | |  | | | ¨ | | |  | | | Smaller reporting company | | |  | | | ☐ | | |
|  | | |  | | |  | | |  | | | Emerging growth company | | |  | | | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

The number of shares outstanding of the registrant’s common stock as of July 22, 2022 was 191,353,157.

**L3HARRIS TECHNOLOGIES, INC.**

**FORM 10-Q**

**For the Quarter Ended July 1, 2022**

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**PART I. FINANCIAL INFORMATION**

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**L3HARRIS TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |
| **(In millions, except per share amounts)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |
|  | | |  | | |  | | |  | | |  | | |  | | | | | | | | |
| Revenue from product sales and services | | | $ | 4,135 |  |  | | | $ | 4,668 |  |  | | | $ | 8,238 |  |  | | | $ | 9,235 |  |
| Cost of product sales and services | | | (2,907) | |  |  | | | (3,251) | |  |  | | | (5,767) | |  |  | | | (6,464) | |  |
| Engineering, selling and administrative expenses | | | (744) | |  |  | | | (891) | |  |  | | | (1,489) | |  |  | | | (1,692) | |  |
| Business divestiture-related gains, net | | | — | |  |  | | | 180 | |  |  | | | — | |  |  | | | 165 | |  |
| Impairment of goodwill and other assets | | | — | |  |  | | | (145) | |  |  | | | — | |  |  | | | (207) | |  |
| Non-operating income | | | 108 | |  |  | | | 86 | |  |  | | | 214 | |  |  | | | 203 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest expense, net | | | (67) | |  |  | | | (65) | |  |  | | | (135) | |  |  | | | (131) | |  |
| Income from continuing operations before income taxes | | | 525 | |  |  | | | 582 | |  |  | | | 1,061 | |  |  | | | 1,109 | |  |
| Income taxes | | | (55) | |  |  | | | (169) | |  |  | | | (116) | |  |  | | | (229) | |  |
| Income from continuing operations | | | 470 | |  |  | | | 413 | |  |  | | | 945 | |  |  | | | 880 | |  |
| Discontinued operations, net of income taxes | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (1) | |  |
| Net income | | | 470 | |  |  | | | 413 | |  |  | | | 945 | |  |  | | | 879 | |  |
| Noncontrolling interests, net of income taxes | | | 1 | |  |  | | | — | |  |  | | | 1 | |  |  | | | 2 | |  |
| Net income attributable to L3Harris Technologies, Inc. | | | $ | 471 |  |  | | | $ | 413 |  |  | | | $ | 946 |  |  | | | $ | 881 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Amount attributable to L3Harris Technologies, Inc. common shareholders** | | | | | | | | | | | | | | | | | | | | | | | |
| Income from continuing operations | | | $ | 471 |  |  | | | $ | 413 |  |  | | | $ | 946 |  |  | | | $ | 882 |  |
| Discontinued operations, net of income taxes | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (1) | |  |
| Net income | | | $ | 471 |  |  | | | $ | 413 |  |  | | | $ | 946 |  |  | | | $ | 881 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Net income per common share attributable to L3Harris Technologies, Inc. common shareholders** | | | | | | | | | | | | | | | | | | | | | | | |
| Basic | | | $ | 2.45 |  |  | | | $ | 2.03 |  |  | | | $ | 4.91 |  |  | | | $ | 4.29 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Diluted | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Continuing operations | | | $ | 2.42 |  |  | | | $ | 2.01 |  |  | | | $ | 4.86 |  |  | | | $ | 4.26 |  |
| Discontinued operations | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (0.01) | |  |
|  | | | $ | 2.42 |  |  | | | $ | 2.01 |  |  | | | $ | 4.86 |  |  | | | $ | 4.25 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic weighted average common shares outstanding | | | 192.1 | |  |  | | | 203.6 | |  |  | | | 192.6 | |  |  | | | 205.2 | |  |
| Diluted weighted average common shares outstanding | | | 194.0 | |  |  | | | 205.6 | |  |  | | | 194.5 | |  |  | | | 207.1 | |  |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

1

**L3HARRIS TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |
|  | | |  | | |  | | |  | | |  | | |  | | | | | | | | |
| Net income | | | $ | 470 |  |  | | | $ | 413 |  |  | | | $ | 945 |  |  | | | $ | 879 |  |
| Other comprehensive (loss) income: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Foreign currency translation (loss) gain, net of income taxes | | | (73) | |  |  | | | 15 | |  |  | | | (76) | |  |  | | | (3) | |  |
| Net unrealized (loss) gain on hedging derivatives, net of income taxes | | | (7) | |  |  | | | 2 | |  |  | | | (2) | |  |  | | | 7 | |  |
| Net unrecognized loss on postretirement obligations, net of income taxes | | | — | |  |  | | | (2) | |  |  | | | — | |  |  | | | (2) | |  |
| Other comprehensive (loss) income, recognized during the period | | | (80) | |  |  | | | 15 | |  |  | | | (78) | |  |  | | | 2 | |  |
| Reclassification adjustments for (gains) losses included in net income | | | (2) | |  |  | | | 4 | |  |  | | | (8) | |  |  | | | 2 | |  |
| Other comprehensive (loss) income, net of income taxes | | | (82) | |  |  | | | 19 | |  |  | | | (86) | |  |  | | | 4 | |  |
| Total comprehensive income | | | 388 | |  |  | | | 432 | |  |  | | | 859 | |  |  | | | 883 | |  |
| Comprehensive loss attributable to noncontrolling interests | | | 1 | |  |  | | | — | |  |  | | | 1 | |  |  | | | 2 | |  |
| Total comprehensive income attributable to L3Harris Technologies, Inc. | | | $ | 389 |  |  | | | $ | 432 |  |  | | | $ | 860 |  |  | | | $ | 885 |  |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

2

**L3HARRIS TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEET**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions, except shares)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |
|  | | |  | | |  | | |  | | |
| **Assets** | | |  | | |  | | |  | | |
| *Current Assets* | | |  | | |  | | |  | | |
| Cash and cash equivalents | | | $ | 420 |  |  | | | $ | 941 |  |
| Receivables, net | | | 1,191 | |  |  | | | 1,045 | |  |
| Contract assets | | | 3,048 | |  |  | | | 3,021 | |  |
| Inventories | | | 1,241 | |  |  | | | 982 | |  |
| Inventory prepayments | | | 8 | |  |  | | | 48 | |  |
| Income taxes receivable | | | 47 | |  |  | | | 98 | |  |
| Other current assets | | | 233 | |  |  | | | 224 | |  |
|  | | |  | | |  | | |  | | |
| Total current assets | | | 6,188 | |  |  | | | 6,359 | |  |
| *Non-current Assets* | | |  | | |  | | |  | | |
| Property, plant and equipment, net | | | 2,042 | |  |  | | | 2,101 | |  |
| Operating lease right-of-use assets | | | 761 | |  |  | | | 769 | |  |
| Goodwill | | | 18,143 | |  |  | | | 18,189 | |  |
| Other intangible assets, net | | | 6,321 | |  |  | | | 6,640 | |  |
| Deferred income taxes | | | 103 | |  |  | | | 85 | |  |
| Other non-current assets | | | 580 | |  |  | | | 566 | |  |
|  | | |  | | |  | | |  | | |
| Total non-current assets | | | 27,950 | |  |  | | | 28,350 | |  |
|  | | | $ | 34,138 |  |  | | | $ | 34,709 |  |
| **Liabilities and Equity** | | |  | | |  | | |  | | |
| *Current Liabilities* | | |  | | |  | | |  | | |
| Short-term debt | | | $ | 2 |  |  | | | $ | 2 |  |
| Accounts payable | | | 1,721 | |  |  | | | 1,767 | |  |
| Contract liabilities | | | 1,270 | |  |  | | | 1,297 | |  |
| Compensation and benefits | | | 381 | |  |  | | | 444 | |  |
| Other accrued items | | | 898 | |  |  | | | 1,002 | |  |
| Income taxes payable | | | 350 | |  |  | | | 28 | |  |
| Current portion of long-term debt, net | | | 262 | |  |  | | | 11 | |  |
|  | | |  | | |  | | |  | | |
| Total current liabilities | | | 4,884 | |  |  | | | 4,551 | |  |
| *Non-current Liabilities* | | |  | | |  | | |  | | |
| Defined benefit plans | | | 437 | |  |  | | | 614 | |  |
| Operating lease liabilities | | | 756 | |  |  | | | 768 | |  |
| Long-term debt, net | | | 6,782 | |  |  | | | 7,048 | |  |
| Deferred income taxes | | | 1,032 | |  |  | | | 1,344 | |  |
| Other long-term liabilities | | | 1,057 | |  |  | | | 1,065 | |  |
|  | | |  | | |  | | |  | | |
| Total non-current liabilities | | | 10,064 | |  |  | | | 10,839 | |  |
| *Equity* | | |  | | |  | | |  | | |
| Shareholders’ Equity: | | |  | | |  | | |  | | |
| Preferred stock, without par value; 1,000,000 shares authorized; none issued | | | — | |  |  | | | — | |  |
| Common stock, $1.00 par value; 500,000,000 shares authorized; issued and outstanding 191,518,970 and 193,511,401 shares at July 1, 2022 and December 31, 2021, respectively | | | 192 | |  |  | | | 194 | |  |
| Other capital | | | 15,814 | |  |  | | | 16,248 | |  |
| Retained earnings | | | 3,312 | |  |  | | | 2,917 | |  |
| Accumulated other comprehensive loss | | | (232) | |  |  | | | (146) | |  |
| Total shareholders’ equity | | | 19,086 | |  |  | | | 19,213 | |  |
| Noncontrolling interests | | | 104 | |  |  | | | 106 | |  |
| Total equity | | | 19,190 | |  |  | | | 19,319 | |  |
|  | | | $ | 34,138 |  |  | | | $ | 34,709 |  |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

3

**L3HARRIS TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Two Quarters Ended** | | | | | | | | |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  |
|  | | |  | | |  | | |  | | |  |
| **Operating Activities** | | |  | | |  | | |  | | |  |
| Net income | | | $ | 945 |  |  | | | $ | 879 |  |  |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |  | | |  | | |  | | |  |
| Amortization of acquisition-related intangibles | | | 303 | |  |  | | | 320 | |  |  |
| Depreciation and other amortization | | | 162 | |  |  | | | 164 | |  |  |
| Share-based compensation | | | 69 | |  |  | | | 67 | |  |  |
| Share-based matching contributions under defined contribution plans | | | 113 | |  |  | | | 117 | |  |  |
| Qualified pension plan contributions | | | (3) | |  |  | | | (4) | |  |  |
| Pension and other postretirement benefit plan income | | | (198) | |  |  | | | (188) | |  |  |
|  | | |  | | |  | | |  | | |  |
| Impairment of goodwill and other assets | | | — | |  |  | | | 242 | |  |  |
|  | | |  | | |  | | |  | | |  |
|  | | |  | | |  | | |  | | |  |
| Business divestiture-related gains, net | | | — | |  |  | | | (165) | |  |  |
| Gain on sale of property, plant and equipment | | | (1) | |  |  | | | — | |  |  |
| Gain on sale of asset group | | | (8) | |  |  | | | — | |  |  |
|  | | |  | | |  | | |  | | |  |
|  | | |  | | |  | | |  | | |  |
| Deferred income taxes | | | (326) | |  |  | | | (151) | |  |  |
| (Increase) decrease in: | | |  | | |  | | |  | | |  |
| Receivables, net | | | (146) | |  |  | | | 62 | |  |  |
| Contract assets | | | (25) | |  |  | | | (438) | |  |  |
| Inventories | | | (259) | |  |  | | | 46 | |  |  |
| Prepaid expenses and other current assets | | | 31 | |  |  | | | (21) | |  |  |
| Increase (decrease) in: | | |  | | |  | | |  | | |  |
| Accounts payable | | | (44) | |  |  | | | 69 | |  |  |
| Contract liabilities | | | (21) | |  |  | | | 86 | |  |  |
| Compensation and benefits | | | (63) | |  |  | | | (80) | |  |  |
| Other accrued items | | | (103) | |  |  | | | 8 | |  |  |
| Income taxes | | | 376 | |  |  | | | 309 | |  |  |
| Other | | | (14) | |  |  | | | 59 | |  |  |
| Net cash provided by operating activities | | | 788 | |  |  | | | 1,381 | |  |  |
| **Investing Activities** | | |  | | |  | | |  | | |  |
|  | | |  | | |  | | |  | | |  |
| Additions to property, plant and equipment | | | (117) | |  |  | | | (128) | |  |  |
| Proceeds from sale of property, plant and equipment, net | | | 4 | |  |  | | | 4 | |  |  |
| Proceeds from sales of businesses, net | | | 2 | |  |  | | | 1,430 | |  |  |
|  | | |  | | |  | | |  | | |  |
| Proceeds from sale of asset group | | | 18 | |  |  | | | — | |  |  |
| Cash used for equity investments | | | (30) | |  |  | | | — | |  |  |
| Other investing activities | | | 2 | |  |  | | | 1 | |  |  |
| Net cash (used in) provided by investing activities | | | (121) | |  |  | | | 1,307 | |  |  |
| **Financing Activities** | | |  | | |  | | |  | | |  |
| Net proceeds from borrowings | | | 7 | |  |  | | | 5 | |  |  |
| Repayments of borrowings | | | (10) | |  |  | | | (10) | |  |  |
|  | | |  | | |  | | |  | | |  |
|  | | |  | | |  | | |  | | |  |
| Proceeds from exercises of employee stock options | | | 34 | |  |  | | | 38 | |  |  |
| Repurchases of common stock | | | (729) | |  |  | | | (1,550) | |  |  |
| Cash dividends | | | (435) | |  |  | | | (416) | |  |  |
|  | | |  | | |  | | |  | | |  |
| Tax withholding payments associated with vested share-based awards | | | (38) | |  |  | | | (2) | |  |  |
| Other financing activities | | | (3) | |  |  | | | (2) | |  |  |
| Net cash used in financing activities | | | (1,174) | |  |  | | | (1,937) | |  |  |
| Effect of exchange rate changes on cash and cash equivalents | | | (14) | |  |  | | | 2 | |  |  |
| **Net (decrease) increase in cash and cash equivalents** | | | (521) | |  |  | | | 753 | |  |  |
| **Cash and cash equivalents, beginning of period** | | | 941 | |  |  | | | 1,276 | |  |  |
| **Cash and cash equivalents, end of period** | | | $ | 420 |  |  | | | $ | 2,029 |  |  |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

4

**L3HARRIS TECHNOLOGIES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENT OF EQUITY**

**(Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions, except per share amounts)** | | | **Common Stock** | | |  | | | **Other Capital** | | |  | | | **Retained Earnings** | | |  | | | **Accumulated Other Comprehensive Loss** | | |  | | | **Non-controlling Interests** | | |  | | | **Total Equity** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at April 1, 2022** | | | **$** | **193** |  |  | | | **$** | **16,089** |  |  | | | **$** | **3,128** |  |  | | | **$** | **(150)** |  |  | | | **$** | **105** |  |  | | | **$** | **19,365** |  |
| Net income | | | — | |  |  | | | — | |  |  | | | 471 | |  |  | | | — | |  |  | | | (1) | |  |  | | | 470 | |  |
| Other comprehensive loss, net of income taxes | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (82) | |  |  | | | — | |  |  | | | (82) | |  |
| Shares issued under stock incentive plans | | | — | |  |  | | | 4 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 4 | |  |
| Shares issued under defined contribution plans | | | 1 | |  |  | | | 57 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 58 | |  |
| Share-based compensation expense | | | — | |  |  | | | 41 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 41 | |  |
| Tax withholding payments on share-based awards | | | — | |  |  | | | (26) | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (26) | |  |
| Repurchases and retirement of common stock | | | (2) | |  |  | | | (351) | |  |  | | | (68) | |  |  | | | — | |  |  | | | — | |  |  | | | (421) | |  |
| Cash dividends ($1.12 per share) | | | — | |  |  | | | — | |  |  | | | (217) | |  |  | | | — | |  |  | | | — | |  |  | | | (217) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Other | | | — | |  |  | | | — | |  |  | | | (2) | |  |  | | | — | |  |  | | | — | |  |  | | | (2) | |  |
| **Balance at July 1, 2022** | | | **$** | **192** |  |  | | | **$** | **15,814** |  |  | | | **$** | **3,312** |  |  | | | **$** | **(232)** |  |  | | | **$** | **104** |  |  | | | **$** | **19,190** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at April 2, 2021** | | | **$** | **205** |  |  | | | **$** | **18,487** |  |  | | | **$** | **2,529** |  |  | | | **$** | **(854)** |  |  | | | **$** | **115** |  |  | | | **$** | **20,482** |  |
| Net income | | | — | |  |  | | | — | |  |  | | | 413 | |  |  | | | — | |  |  | | | — | |  |  | | | 413 | |  |
| Other comprehensive loss, net of income taxes | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 19 | |  |  | | | — | |  |  | | | 19 | |  |
| Shares issued under stock incentive plans | | | 1 | |  |  | | | 27 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 28 | |  |
| Shares issued under defined contribution plans | | | 1 | |  |  | | | 59 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 60 | |  |
| Share-based compensation expense | | | — | |  |  | | | 34 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 34 | |  |
| Tax withholding payments on share-based awards | | | — | |  |  | | | (1) | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (1) | |  |
| Repurchases and retirement of common stock | | | (5) | |  |  | | | (744) | |  |  | | | (101) | |  |  | | | — | |  |  | | | — | |  |  | | | (850) | |  |
| Cash dividends ($1.02 per share) | | | — | |  |  | | | — | |  |  | | | (207) | |  |  | | | — | |  |  | | | — | |  |  | | | (207) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Other | | | — | |  |  | | | 1 | |  |  | | | (1) | |  |  | | | — | |  |  | | | (2) | |  |  | | | (2) | |  |
| **Balance at July 2, 2021** | | | **$** | **202** |  |  | | | **$** | **17,863** |  |  | | | **$** | **2,633** |  |  | | | **$** | **(835)** |  |  | | | **$** | **113** |  |  | | | **$** | **19,976** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at December 31, 2021** | | | **$** | **194** |  |  | | | **$** | **16,248** |  |  | | | **$** | **2,917** |  |  | | | **$** | **(146)** |  |  | | | **$** | **106** |  |  | | | **$** | **19,319** |  |
| Net income | | | — | |  |  | | | — | |  |  | | | 946 | |  |  | | | — | |  |  | | | (1) | |  |  | | | 945 | |  |
| Other comprehensive loss, net of income taxes | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (86) | |  |  | | | — | |  |  | | | (86) | |  |
| Shares issued under stock incentive plans | | | — | |  |  | | | 34 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 34 | |  |
| Shares issued under defined contribution plans | | | 1 | |  |  | | | 112 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 113 | |  |
| Share-based compensation expense | | | — | |  |  | | | 69 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 69 | |  |
| Tax withholding payments on share-based awards | | | — | |  |  | | | (38) | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (38) | |  |
| Repurchases and retirement of common stock | | | (3) | |  |  | | | (611) | |  |  | | | (115) | |  |  | | | — | |  |  | | | — | |  |  | | | (729) | |  |
| Cash dividends ($2.24 per share) | | | — | |  |  | | | — | |  |  | | | (435) | |  |  | | | — | |  |  | | | — | |  |  | | | (435) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Other | | | — | |  |  | | | — | |  |  | | | (1) | |  |  | | | — | |  |  | | | (1) | |  |  | | | (2) | |  |
| **Balance at July 1, 2022** | | | **$** | **192** |  |  | | | **$** | **15,814** |  |  | | | **$** | **3,312** |  |  | | | **$** | **(232)** |  |  | | | **$** | **104** |  |  | | | **$** | **19,190** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at January 1, 2021** | | | **$** | **208** |  |  | | | **$** | **19,008** |  |  | | | **$** | **2,347** |  |  | | | **$** | **(839)** |  |  | | | **$** | **117** |  |  | | | **$** | **20,841** |  |
| Net income | | | — | |  |  | | | — | |  |  | | | 881 | |  |  | | | — | |  |  | | | (2) | |  |  | | | 879 | |  |
| Other comprehensive loss, net of income taxes | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 4 | |  |  | | | — | |  |  | | | 4 | |  |
| Shares issued under stock incentive plans | | | 1 | |  |  | | | 37 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 38 | |  |
| Shares issued under defined contribution plans | | | 1 | |  |  | | | 116 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 117 | |  |
| Share-based compensation expense | | | — | |  |  | | | 67 | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | 67 | |  |
| Tax withholding payments on share-based awards | | | — | |  |  | | | (2) | |  |  | | | — | |  |  | | | — | |  |  | | | — | |  |  | | | (2) | |  |
| Repurchases and retirement of common stock | | | (8) | |  |  | | | (1,364) | |  |  | | | (178) | |  |  | | | — | |  |  | | | — | |  |  | | | (1,550) | |  |
| Cash dividends ($2.04 per share) | | | — | |  |  | | | — | |  |  | | | (416) | |  |  | | | — | |  |  | | | — | |  |  | | | (416) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Other | | | — | |  |  | | | 1 | |  |  | | | (1) | |  |  | | | — | |  |  | | | (2) | |  |  | | | (2) | |  |
| **Balance at July 2, 2021** | | | **$** | **202** |  |  | | | **$** | **17,863** |  |  | | | **$** | **2,633** |  |  | | | **$** | **(835)** |  |  | | | **$** | **113** |  |  | | | **$** | **19,976** |  |

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A — SIGNIFICANT ACCOUNTING POLICIES AND RECENT ACCOUNTING STANDARDS**

**Basis of Presentation**

The accompanying Condensed Consolidated Financial Statements (Unaudited) include the accounts of L3Harris Technologies, Inc. and its consolidated subsidiaries. As used in these Notes to Condensed Consolidated Financial Statements (Unaudited) (these “Notes”), the terms “L3Harris,” “Company,” “we,” “our” and “us” refer to L3Harris Technologies, Inc. and its consolidated subsidiaries. Intracompany transactions and accounts have been eliminated in consolidation. The accompanying Condensed Consolidated Financial Statements (Unaudited) have been prepared by L3Harris in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (“SEC”). Accordingly, such interim financial statements do not include all information and footnotes necessary for a complete presentation of financial condition, results of operations, cash flows and equity in conformity with GAAP for annual financial statements. In the opinion of management, such interim financial statements reflect all adjustments (including normal recurring adjustments) considered necessary for a fair presentation of our financial condition, results of operations, cash flows and equity for the periods presented therein. The results for the quarter and two quarters ended July 1, 2022 are not necessarily indicative of the results that may be expected for the full fiscal year or any subsequent period. The balance sheet at December 31, 2021 has been derived from our audited financial statements, but does not include all of the information and footnotes required by GAAP for annual financial statements. We provide complete, audited financial statements in our Annual Report on Form 10-K, which includes information and footnotes required by the rules and regulations of the SEC. The information included in this Quarterly Report on Form 10-Q (this “Report”) should be read in conjunction with the Management’s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (our “Fiscal 2021 Form 10-K”).

***Segment reorganization and change in accounting policy:*** We implemented a new organizational structure effective January 1, 2022, resulting in changes to our operating segments, which are also our reportable segments and are referred to as our business segments. The new structure streamlined our business segments from four to three business segments. Our former Aviation Systems segment was eliminated as a business segment.

We updated our business segment reporting and accounting policies for pension and other postretirement benefits plan (“OPEB”) income or expense to better align our presentation of business segment information with our industry peers. Our business segment operating results include pension and OPEB cost under U.S. Government Cost Accounting Standards (“CAS”), as CAS pension and OPEB cost is allocable to and allowable under contracts with the U.S. Government. We no longer assign or allocate Financial Accounting Standards (“FAS”) pension and OPEB income or expense to our business segments. GAAP requires pension and OPEB income or expense to be recognized on a FAS basis. Therefore, we present a “FAS/CAS operating adjustment” outside of business segment results, representing the difference between the service cost component of FAS pension and OPEB income or expense and total CAS pension and OPEB cost or expense. Non-service cost components of FAS pension and OPEB income or expense are included as a component of non-operating income or expense.

The historical results, discussion and presentation of our business segments as set forth in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes reflect the impact of these changes for all periods presented in order to present segment information on a comparable basis. There is no impact on our previously reported consolidated statements of income, balance sheets, statements of cash flows or statements of equity resulting from these changes. See *Note R — Business Segment Information* in these Notes for further information regarding our new segment structure and pension presentation effective in fiscal 2022.

**Supplemental Cash Flow Information**

Non-cash investing and financing activities during the two quarters ended July 2, 2021 included a $120 million right-of-use asset we obtained in exchange for a corresponding financing lease liability. These non-cash investing and financing activities are excluded from the “Additions to property, plant and equipment” and “Net proceeds from borrowings” line items in our Condensed Consolidated Statement of Cash Flows (Unaudited). Right-of-use assets for finance leases are included in the “Property, plant and equipment, net” line item and the corresponding finance lease liabilities are included in the “Current portion of long-term debt, net” and “Long-term debt, net” line items in our Condensed Consolidated Balance Sheet (Unaudited).

**Use of Estimates**

The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the amounts reported in the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes and related disclosures. These estimates and assumptions are based on experience and other information available prior to issuance of the accompanying Condensed Consolidated Financial Statements (Unaudited) and these Notes. Materially different results can occur as circumstances change and additional information becomes known.

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**Significant Accounting Policies Update**

There have been no material changes to our significant accounting policies described in our Fiscal 2021 Form 10-K.

**NOTE B— BUSINESS DIVESTITURES AND ASSET SALES**

**Completed Divestitures and Asset Sales — Two Quarters ended July 1, 2022**

During the two quarters ended July 1, 2022, we completed one business divestiture and one asset sale from our Integrated Mission Systems business segment for combined net cash proceeds of $20 million and recognized a pre-tax gain of $8 million associated with the asset sale included in the “Engineering, selling and administrative expenses” line of our Condensed Consolidated Statement of Income for the quarter and two quarters ended July 1, 2022.

**Completed Divestitures and Asset Sales — Two Quarters ended July 2, 2021**

The following table presents information regarding business divestitures and asset sales completed during the two quarters ended July 2, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **Business Segment Prior to Divestiture / Asset Sale(1)** | | |  | | | **Date of Divestiture / Asset Sale** | | |  | | | **Sale Price** | | |  | | | **Net Cash Proceeds(2)** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| CPS business(3) | | | Other non-reportable businesses(7) | | |  | | | July 2, 2021 | | |  | | | $ | 398 |  |  | | | $ | 354 |  |
| Military training business(4) | | | Other non-reportable businesses(7) | | |  | | | July 2, 2021 | | |  | | | 1,050 | |  |  | | | 1,074 | |  |
| VSE disposal group(5) | | | Other non-reportable businesses(7) | | |  | | | July 2, 2021(6) | | |  | | | 20 | |  |  | | | 2 | |  |
|  | | |  | | |  | | |  | | |  | | | $ | 1,468 |  |  | | | $ | 1,430 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Business segment in which the operating results of each divested business were reported through the date of divestiture.

(2)Net cash proceeds after selling costs and purchase price adjustments.

(3)The Combat Propulsion Systems and related businesses (“CPS business”) engineered, designed and manufactured engines, transmissions, suspensions and turret drive systems for tracked and wheeled combat vehicle systems.

(4)The military training business provided flight simulation solutions and training services to the U.S. Department of Defense and foreign military agencies.

(5)The Voice Switch Enterprise disposal group (“VSE disposal group”) provided voice over internet protocol systems for air traffic management.

(6)The sale of the VSE disposal group was partially closed on July 2, 2021, with the remainder divested on July 30, 2021.

(7)Formerly our Aviation Systems segment.

***Income Before Income Taxes Attributable to Businesses Divested:*** The following table presents the amount of significant income before income taxes attributable to businesses divested in our Condensed Consolidated Statement of Income (Unaudited):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  | **Quarter Ended** | | |  |  | **Two Quarters Ended** | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | |  |  | **July 2, 2021** | | |  |  |  | | | **July 2, 2021** | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
| Electron Devices business(1) | | |  |  | $ | 11 |  |  |  |  | | | $ | 30 |  |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
| CPS business | | |  |  | 27 | |  |  |  |  | | | 53 | |  |  |  |  |  | | |  | | |  | | |  | | |
| Military training business | | |  |  | 18 | |  |  |  |  | | | 35 | |  |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |
|  | | |  |  |  | | |  |  |  | | |  | | |  |  |  |  | | |  | | |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)The Electron Devices and Narda Microwave-West divisions (“Electron Devices business”) manufactured microwave devices for ground-based, airborne and satellite communications and radar. We entered into a definitive agreement to sell the Electron Devices business on July 2, 2021. The sale of the Electron Devices business was closed on October 1, 2021.

***Business Divestiture-Related Gains, net:*** The “Business divestiture-related gains, net” line item in our Condensed Consolidated Statement of Income (Unaudited) is comprised of the following pre-tax gains associated with businesses divested.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  | | |  |  |  |
|  | | |  |  | **Quarter Ended** | | | **Two Quarters Ended** | | | |  |  |  |  |  |  |
| **(In millions)** | | |  |  | **July 2, 2021** | | |  | | |  |  | | | **July 2, 2021** | | |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
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|  | | |  |  |  | | |  | | |  |  | | |  | | |
| VSE disposal group | | |  |  | $ | (18) |  |  | | |  |  | | | $ | (26) |  |
| CPS business(1) | | |  |  | (12) | |  |  | | |  |  | | | (19) | |  |
| Military training business | | |  |  | 212 | |  |  | | |  |  | | | 212 | |  |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
| Other | | |  |  | (2) | |  |  | | |  |  | | | (2) | |  |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
| Total business divestiture-related gains, net | | |  |  | $ | 180 |  |  | | |  |  | | | $ | 165 |  |

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(1)During the quarter ended April 2, 2021, upon classifying the CPS business as held for sale, we recorded a non-cash impairment charge of $62 million, which is included in the “Impairment of goodwill and other assets” line item in our Condensed Consolidated Statement of Income (Unaudited) for the two quarters ended July 2, 2021. See *Note I — Goodwill and Other Intangible Assets* in these Notes for additional information.

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**Fair Value of Businesses and Goodwill Allocation**

See *Note I — Goodwill and Other Intangible Assets* in these Notes for additional information regarding the impairment of goodwill related to business divestitures.

**NOTE C— STOCK OPTIONS AND OTHER SHARE-BASED COMPENSATION**

At July 1, 2022, we had stock options and other share-based compensation awards outstanding under several employee stock incentive plans (“L3Harris SIPs”). The compensation cost related to our share-based awards that was charged against income was $41 million and $69 million for the quarter and two quarters ended July 1, 2022, respectively, and $34 million and $67 million for the quarter and two quarters ended and July 2, 2021, respectively. The aggregate number of shares of our common stock issued under L3Harris SIPs, net of shares withheld for tax purposes, was 0.2 million and 0.6 million for the quarter and two quarters ended July 1, 2022, respectively, and 0.4 million and 0.5 million for the quarter and two quarters ended July 2, 2021, respectively.

There were no significant restricted stock units, stock options or performance stock units granted to participants under L3Harris SIPs during the quarter ended July 1, 2022. Awards granted to participants under L3Harris SIPs during the two quarters ended July 1, 2022 consisted of 0.4 million stock options, 0.2 million performance stock units and 0.2 million restricted stock units. During fiscal 2022, the majority of the options and units were granted on February 25, 2022. The fair value as of the grant date of each stock option award was determined using the Black-Scholes-Merton option-pricing model and the following assumptions: expected dividend yield of 1.92%; expected volatility of 29.11%; risk-free interest rates averaging 1.86%; and expected term of 5.02 years. The fair value as of the grant date of each restricted stock unit award was based on the closing price of our common stock on the grant date. The fair value as of the grant date of each performance stock unit award was determined based on the fair value from a multifactor Monte Carlo valuation model that simulates our stock price and total shareholder return (“TSR”) relative to other companies in the S&P 500, less a discount to reflect the delay in payments of cash dividend-equivalents that are made only upon vesting. The fair value of these awards is amortized to compensation expense over the performance period if achievement of the performance measures is considered probable.

See *Note 15: Stock Options and Other Share-Based Compensation* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K for additional information regarding L3Harris SIPs.

**NOTE D— ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (“AOCI”)**

The components of AOCI are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **Foreign currency translation** | | |  | | | **Net unrealized losses on hedging derivatives** | | |  | | | **Unrecognized postretirement obligations** | | |  | | | **Total AOCI** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at December 31, 2021** | | | **$** | **(118)** |  |  | | | **$** | **(89)** |  |  | | | **$** | **61** |  |  | | | **$** | **(146)** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Other comprehensive loss before reclassifications to earnings, net of income taxes | | | (76) | |  |  | | | (2) | |  |  | | | — | |  |  | | | (78) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Gains (losses) reclassified to earnings, net of income taxes(1) | | | — | |  |  | | | 2 | |  |  | | | (10) | |  |  | | | (8) | |  |
| Other comprehensive loss, net of income taxes | | | (76) | |  |  | | | — | |  |  | | | (10) | |  |  | | | (86) | |  |
| **Balance at July 1, 2022** | | | **$** | **(194)** |  |  | | | **$** | **(89)** |  |  | | | **$** | **51** |  |  | | | **$** | **(232)** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at January 1, 2021** | | | **$** | **(58)** |  |  | | | **$** | **(80)** |  |  | | | **$** | **(701)** |  |  | | | **$** | **(839)** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Other comprehensive (loss) income before reclassifications to earnings, net of income taxes | | | (3) | |  |  | | | 7 | |  |  | | | (2) | |  |  | | | 2 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Losses (gains) reclassified to earnings, net of income taxes(1) | | | 2 | |  |  | | | (6) | |  |  | | | 6 | |  |  | | | 2 | |  |
| Other comprehensive (loss) income, net of income taxes | | | (1) | |  |  | | | 1 | |  |  | | | 4 | |  |  | | | 4 | |  |
| **Balance at July 2, 2021** | | | **$** | **(59)** |  |  | | | **$** | **(79)** |  |  | | | **$** | **(697)** |  |  | | | **$** | **(835)** |  |

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(1)(Gains) losses reclassified to earnings are included in the “Revenue from product sales and services,” “Business divestiture-related gains, net,” “Interest expense, net” and “Non-operating income” line items in our Condensed Consolidated Statement of Income (Unaudited).

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**NOTE E— RECEIVABLES, NET**

Receivables, net are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |
|  | | |  | | |  | | |  | | |
| Accounts receivable | | | $ | 1,228 |  |  | | | $ | 1,088 |  |
| Less: allowances for collection losses | | | (37) | |  |  | | | (43) | |  |
| Receivables, net | | | $ | 1,191 |  |  | | | $ | 1,045 |  |

We have two receivables sale agreements (“RSAs”) with two separate third-party financial institutions that permit us to sell, on a non-recourse basis, up to $100 million of outstanding receivables per agreement at any given time. From time to time, we have sold certain customer receivables under the RSAs, which we continue to service and collect on behalf of the third-party financial institutions and which we account for as sales of receivables with sale proceeds included in net cash provided by operating activities. We did not have outstanding accounts receivable sold pursuant to the RSAs at July 1, 2022. Outstanding accounts receivable sold pursuant to the RSAs were $99.9 million at December 31, 2021, with net cash proceeds of $99.8 million.

**NOTE F— CONTRACT ASSETS AND CONTRACT LIABILITIES**

Contract assets include unbilled amounts typically resulting from revenue recognized exceeding amounts billed to customers for contracts utilizing the percentage of completion (“POC”) cost-to-cost revenue recognition method. We bill customers as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals, upon achievement of contractual milestones or upon deliveries and, in certain arrangements, the customer may withhold payment of a small portion of the contract price until contract completion. Contract liabilities include advance payments and billings in excess of revenue recognized, including deferred revenue associated with extended product warranties. Contract assets and liabilities are reported on a contract-by-contract basis at the end of each reporting period.

Contract assets and liabilities in the two quarters ended July 1, 2022 were impacted primarily by the timing of contractual billing milestones.

Contract assets and contract liabilities are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |
|  | | |  | | |  | | |  | | |
| Contract assets | | | $ | 3,048 |  |  | | | $ | 3,021 |  |
| Contract liabilities, current | | | (1,270) | |  |  | | | (1,297) | |  |
| Contract liabilities, non-current(1) | | | (122) | |  |  | | | (107) | |  |
| Net contract assets | | | $ | 1,656 |  |  | | | $ | 1,617 |  |

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(1)The non-current portion of contract liabilities is included as a component of the “Other long-term liabilities” line item in our Condensed Consolidated Balance Sheet (Unaudited).

The components of contract assets are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |  |  |
|  | | |  | | |  | | |  | | |  |  |
| Unbilled contract receivables, gross | | | $ | 4,603 |  |  | | | $ | 4,921 |  |  |  |
| Unliquidated progress payments and advances | | | (1,555) | |  |  | | | (1,900) | |  |  |  |
| Contract assets | | | $ | 3,048 |  |  | | | $ | 3,021 |  |  |  |

Contract liabilities recognized as revenue that were outstanding at the end of the prior fiscal year were $254 million and $771 million for the quarter and two quarters ended July 1, 2022, respectively, and $219 million and $727 million for the quarter and two quarters ended July 2, 2021, respectively.

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**NOTE G— INVENTORIES**

Inventories are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |
|  | | |  | | |  | | |  | | |
| Finished products | | | $ | 194 |  |  | | | $ | 141 |  |
| Work in process | | | 403 | |  |  | | | 335 | |  |
| Raw materials and supplies | | | 644 | |  |  | | | 506 | |  |
| Inventories | | | $ | 1,241 |  |  | | | $ | 982 |  |

**NOTE H— PROPERTY, PLANT AND EQUIPMENT, NET**

Property, plant and equipment, net are summarized below:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |  |  |
|  | | |  | | |  | | |  | | |  |  |
| Land | | | $ | 79 |  |  | | | $ | 79 |  |  |  |
| Software capitalized for internal use | | | 577 | |  |  | | | 576 | |  |  |  |
| Buildings | | | 1,249 | |  |  | | | 1,236 | |  |  |  |
| Machinery and equipment | | | 2,216 | |  |  | | | 2,177 | |  |  |  |
|  | | | 4,121 | |  |  | | | 4,068 | |  |  |  |
| Less: accumulated depreciation and amortization | | | (2,079) | |  |  | | | (1,967) | |  |  |  |
| Property, plant and equipment, net | | | $ | 2,042 |  |  | | | $ | 2,101 |  |  |  |

Depreciation and amortization expense related to property, plant and equipment was $83 million and $166 million for the quarter and two quarters ended July 1, 2022, respectively, and $80 million and $164 million for the quarter and two quarters ended July 2, 2021, respectively.

As discussed in more detail in *Note I — Goodwill and Other Intangible Assets* in these Notes, in conjunction with, and in advance of, the tests of goodwill related to our Commercial Training Solutions (“CTS”) reporting unit, we recorded an $82 million non-cash impairment charge for long-lived assets, consisting of $19 million, $56 million and $7 million of impairment charges for right of use assets, property, plant and equipment and software, respectively, which is included in the “Impairment of goodwill and other assets” line item in our Condensed Consolidated Statement of Income (Unaudited) for the quarter and two quarters ended July 2, 2021.

**NOTE I— GOODWILL AND OTHER INTANGIBLE ASSETS**

The assignment of goodwill by business segment, and changes in the carrying amount of goodwill by business segment, were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **Integrated Mission Systems** | | |  | | | **Space & Airborne Systems** | | |  | | | **Communication Systems** | | |  | | | **Aviation Systems(1)** | | |  | | | **Total** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at December 31, 2021 - As Reported** | | | **$** | **6,485** |  |  | | | **$** | **5,202** |  |  | | | **$** | **4,153** |  |  | | | **$** | **2,349** |  |  | | | **$** | **18,189** |  |
| Reallocation of goodwill in segment reorganization(1) | | | 1,702 | |  |  | | | 647 | |  |  | | | — | |  |  | | | (2,349) | |  |  | | | — | |  |
| **Balance at December 31, 2021 - After Reallocation** | | | **8,187** | |  |  | | | **5,849** | |  |  | | | **4,153** | |  |  | | | **—** | |  |  | | | **18,189** | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Currency translation adjustments | | | (13) | |  |  | | | (33) | |  |  | | | — | |  |  | | | — | |  |  | | | (46) | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Balance at July 1, 2022** | | | **$** | **8,174** |  |  | | | **$** | **5,816** |  |  | | | **$** | **4,153** |  |  | | | **$** | **—** |  |  | | | **$** | **18,143** |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |

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(1)As a result of our new organizational structure, effective January 1, 2022, streamlining our operations from four business segments to three business segments, we reallocated goodwill previously held by our former Aviation Systems segment to our remaining business segments as of January 1, 2021, the earliest period presented in these Notes. See additional information below and “Segment Reorganization” in. *Note A — Significant Accounting Policies and Recent Accounting Standards* in these Notes.

**Fair Value of Businesses**

*Segment reorganization:* We implemented a new organizational structure effective January 1, 2022, resulting in changes to our operating segments, which are also our reportable segments and are referred to as our business segments. The new structure streamlined our business segments from four to three business segments. As a result of the segment reorganization, we realigned

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our reporting units from 11 to 9 reporting units, which are our business segments or one level below the business segment. For our realigned reporting units, immediately before and after our goodwill assignments, we completed an assessment of any potential goodwill impairment under our former and new reporting unit structure and determined that no impairment existed.

*CPS business impairment:* During the quarter ended April 2, 2021, we determined the criteria to be classified as held for sale were met with respect to the CPS business within our other non-reportable business segment and assigned $174 million of goodwill to the disposal group on a relative fair value basis. In connection with the preparation of our financial statements for the quarter ended April 2, 2021, we concluded that goodwill related to the CPS business was impaired and we recorded a non-cash impairment charge of $62 million, which is included in the “Impairment of goodwill and other assets” line item in our Condensed Consolidated Statement of Income (Unaudited).

See *Note 1: Significant Accounting Policies and Recent Accounting Standards* and *Note 3: Business Divestitures and Asset Sales* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K for additional information regarding the fair value hierarchy and our business divestitures, respectively.

*CTS impairment:* During the quarter ended July 2, 2021, we adjusted our Aviation Systems segment reporting to better align our businesses and separated the CTS business from our Commercial Aviation Solutions reporting unit, creating a new reporting unit within the Commercial Aviation Solutions sector of our Aviation Systems segment. Immediately before and after our goodwill assignments, we completed an assessment of any potential goodwill impairment under our former and new reporting unit structure and determined that no impairment existed.

To test for potential impairment of the long-lived assets, including identifiable intangible assets and property, plant and equipment, related to CTS, we compared the estimated future cash flows (on an undiscounted basis) to be generated from the use and hypothetical eventual disposition of the asset group to its carrying value and, as a result, we determined the carrying value of the CTS asset group was not recoverable. Next, we prepared an estimate of the fair value of CTS based on a combination of market-based valuation techniques, utilizing quoted market prices and comparable publicly reported transactions and projected discounted cash flows. We compared the fair value of CTS to our carrying value and recorded a $145 million non-cash charge for the impairment of CTS long-lived assets, including $63 million for impairment of identifiable intangible assets, which is included in the “Impairment of goodwill and other assets” line item in our Condensed Consolidated Statement of Income (Unaudited) for the quarter and two quarters ended July 2, 2021. See *Note H — Property, Plant and Equipment, net* in these Notes for additional information.

**NOTE J — ACCRUED WARRANTIES**

Our liability for standard product warranties is included as a component of the “Other accrued items” and “Other long-term liabilities” line items in our Condensed Consolidated Balance Sheet (Unaudited). Changes in our liability for standard product warranties during the two quarters ended July 1, 2022 were as follows:

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |
|  | | | **(In millions)** | | |  |  |  |  |
|  | | |  | | |  |  |  |  |
| Balance at December 31, 2021 | | | $ | 117 |  |  |  |  |  |
|  | | |  | | |  |  |  |  |
|  | | |  | | |  |  |  |  |
|  | | |  | | |  |  |  |  |
| Accruals for product warranties issued during the period | | | 20 | |  |  |  |  |  |
| Settlements made during the period | | | (35) | |  |  |  |  |  |
| Other, including foreign currency translation adjustments | | | (5) | |  |  |  |  |  |
| Balance at July 1, 2022 | | | $ | 97 |  |  |  |  |  |

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**NOTE K— POSTRETIREMENT BENEFIT PLANS**

The following tables provide the components of our net periodic benefit income for our defined benefit plans, including defined benefit pension plans and other postretirement defined benefit plans:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended July 1, 2022** | | | | | | | | |  | | | **Two Quarters Ended July 1, 2022** | | | | | | | | |
| **(In millions)** | | | **Pension** | | |  | | | **Other Benefits** | | |  | | | **Pension** | | |  | | | **Other Benefits** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Net periodic benefit income** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| *Operating* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Service cost | | | $ | 12 |  |  | | | $ | — |  |  | | | $ | 22 |  |  | | | $ | 1 |  |
| *Non-operating* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest cost | | | 55 | |  |  | | | 2 | |  |  | | | 110 | |  |  | | | 4 | |  |
| Expected return on plan assets | | | (156) | |  |  | | | (6) | |  |  | | | (312) | |  |  | | | (11) | |  |
| Amortization of net actuarial loss (gain) | | | 3 | |  |  | | | (2) | |  |  | | | 5 | |  |  | | | (4) | |  |
| Amortization of prior service (credit) cost | | | (8) | |  |  | | | 1 | |  |  | | | (14) | |  |  | | | 1 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Non-service cost periodic benefit income | | | (106) | |  |  | | | (5) | |  |  | | | (211) | |  |  | | | (10) | |  |
| Net periodic benefit income | | | $ | (94) |  |  | | | $ | (5) |  |  | | | $ | (189) |  |  | | | $ | (9) |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | | **Quarter Ended July 2, 2021** | | | | | | | | |  | | | **Two Quarters Ended July 2, 2021** | | | | | | | | |
| **(In millions)** | | | **Pension** | | |  | | | **Other Benefits** | | |  | | | **Pension** | | |  | | | **Other Benefits** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Net periodic benefit income** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| *Operating* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Service cost | | | $ | 18 |  |  | | | $ | — |  |  | | | $ | 36 |  |  | | | $ | 1 |  |
| *Non-operating* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Interest cost | | | 46 | |  |  | | | 2 | |  |  | | | 92 | |  |  | | | 3 | |  |
| Expected return on plan assets | | | (157) | |  |  | | | (5) | |  |  | | | (312) | |  |  | | | (10) | |  |
| Amortization of net actuarial loss | | | 10 | |  |  | | | — | |  |  | | | 19 | |  |  | | | — | |  |
| Amortization of prior service credit | | | (7) | |  |  | | | — | |  |  | | | (14) | |  |  | | | — | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Effect of curtailments or settlements | | | (3) | |  |  | | | — | |  |  | | | (3) | |  |  | | | — | |  |
| Non-service cost periodic benefit income | | | (111) | |  |  | | | (3) | |  |  | | | (218) | |  |  | | | (7) | |  |
| Net periodic benefit income | | | $ | (93) |  |  | | | $ | (3) |  |  | | | $ | (182) |  |  | | | $ | (6) |  |

During the quarter ended July 2, 2021, we undertook an initiative to de-risk pension obligations by purchasing a group annuity policy and transferring approximately $169 million of pension plan assets to an insurance company thereby reducing our defined benefit obligations by approximately $169 million. As a result of the annuity purchase, we recognized a pre-tax Financial Accounting Standard settlement gain of $3 million in the quarter ended July 2, 2021, which is included as a component of the “Non-operating income” line item in our Condensed Consolidated Statement of Income (Unaudited).

The service cost component of net periodic benefit income is included in the “Cost of product sales and services” and “Engineering, selling and administrative expenses” line items in our Condensed Consolidated Statement of Income (Unaudited).     The non-service cost components of net periodic benefit income are included in the “Non-operating income” line item in our Condensed Consolidated Statement of Income (Unaudited).

We made no material contributions to our U.S. qualified defined benefit pension plans during the quarter or two quarters ended July 1, 2022 or July 2, 2021. As a result of prior voluntary contributions, we are not required to make any contributions to these plans during fiscal 2022 and for several years thereafter.

**NOTE L— EARNINGS PER SHARE**

Income from continuing operations per common share attributable to L3Harris common shareholders (“EPS”) is computed using the two-class method, which is an earnings allocation formula that determines EPS for common stock and any participating securities according to dividends paid and participation rights in undistributed earnings. Under the two-class method, EPS is computed by dividing the sum of earnings distributed to L3Harris common shareholders and undistributed earnings allocated to L3Harris common shareholders by the weighted-average number of common shares outstanding for the period. Income from

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continuing operations per diluted common share attributable to L3Harris common shareholders (“diluted EPS”) is computed using the more dilutive of the two-class method or the treasury stock method. Under the treasury stock method, diluted EPS is computed by dividing net income attributable to L3Harris common shareholders by the weighted-average number of common shares outstanding for the period. In applying the two-class method, undistributed earnings are allocated to both common shares and participating securities based on the weighted-average shares outstanding during the period.

The weighted average number of shares outstanding used to compute EPS and diluted EPS are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Basic weighted average common shares outstanding | | | 192.1 | |  |  | | | 203.6 | |  |  | | | 192.6 | |  |  | | | 205.2 | |  |
| Impact of dilutive share-based awards | | | 1.9 | |  |  | | | 2.0 | |  |  | | | 1.9 | |  |  | | | 1.9 | |  |
| Diluted weighted average common shares outstanding | | | 194.0 | |  |  | | | 205.6 | |  |  | | | 194.5 | |  |  | | | 207.1 | |  |

Potential dilutive common shares primarily consist of employee stock options and restricted and performance unit awards. Diluted EPS excludes the antidilutive impact of 0.4 million and 0.3 million weighted average share-based awards outstanding for the quarter and two quarters ended July 1, 2022, respectively, and 1.7 million and 1.6 million weighted average share-based awards outstanding for the quarter and two quarters ended and July 2, 2021, respectively.

**NOTE M— INCOME TAXES**

Our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) was 10.5% for the quarter ended July 1, 2022 compared with 29.0% for the quarter ended July 2, 2021. For the quarter ended July 1, 2022, our effective tax rate benefited from the favorable impacts of Research and Development (“R&D”) credits, incremental foreign-derived intangible income (“FDII”) benefit resulting from the requirement to capitalize and amortize R&D expenses beginning in fiscal 2022 and the resolution of specific audit uncertainties. For the quarter ended July 2, 2021, our effective tax rate was unfavorably impacted by non-deductible goodwill from completed business divestitures, partially offset by the favorable impacts of R&D credits, the resolution of specific audit uncertainties, and excess tax benefits related to equity-based compensation.

Our effective tax rate was 10.9% for the two quarters ended July 1, 2022 compared with 20.6% for the two quarters ended July 2, 2021. Our effective tax rate for the two quarters ended July 1, 2022 was favorably impacted by a reduction in the deferred tax liabilities on the outside basis of certain foreign subsidiaries due to an internal restructuring and the items described above in this *Note M - Income Taxes*. Our effective tax rate for the two quarters ended July 2, 2021 were impacted by the items described above in this *Note M - Income Taxes*.

**NOTE N— FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received for an asset or the price that would be paid to transfer a liability in the principal market or most advantageous market in an orderly transaction between market participants at the measurement date. Entities are required to maximize the use of observable inputs and minimize the use of unobservable inputs in measuring fair value, and to utilize a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. The three levels of inputs used to measure fair value are as follows:

•Level 1 — Quoted prices in active markets for identical assets or liabilities.

•Level 2 — Observable inputs other than quoted prices included within Level 1, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and inputs other than quoted prices that are observable or are derived principally from, or corroborated by, observable market data by correlation or other means.

•Level 3 — Unobservable inputs that are supported by little or no market activity, are significant to the fair value of the assets or liabilities, and reflect our own assumptions about the assumptions market participants would use in pricing the asset or liability developed using the best information available in the circumstances.

In certain instances, fair value is estimated using quoted market prices obtained from external pricing services. In obtaining such data from the external pricing services, we have evaluated the methodologies used to develop the estimate of fair value in order to assess whether such valuations are representative of fair value, including net asset value (“NAV”). Additionally, in certain circumstances, the NAV reported by an asset manager may be adjusted when sufficient evidence indicates NAV is not representative of fair value.

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The following table presents assets and liabilities measured at fair value on a recurring basis (at least annually) at July 1, 2022 and December 31, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  | | |
|  | | | **July 1, 2022** | | | | | | | | |  | | | **December 31, 2021** | | | | | | | | |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **Total** | | |  | | | **Level 1** | | |  | | | **Total** | | |  | | | **Level 1** | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| **Assets** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| *Deferred compensation plan assets(1)* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Equity and fixed income securities | | | $ | 62 |  |  | | | $ | 62 |  |  | | | $ | 77 |  |  | | | $ | 77 |  |  |  |  | | |  | | |
| Investments measured at NAV: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Corporate-owned life insurance | | | 33 | |  |  | | |  | | |  | | | 35 | |  |  | | |  | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Total fair value of deferred compensation plan assets | | | $ | 95 |  |  | | |  | | |  | | | $ | 112 |  |  | | |  | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| **Liabilities** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| *Deferred compensation plan liabilities(2)* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Equity securities and mutual funds | | | $ | 7 |  |  | | | $ | 7 |  |  | | | $ | 6 |  |  | | | $ | 6 |  |  |  |  | | |  | | |
| Investments measured at NAV: | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Common/collective trusts and guaranteed investment contracts | | | 159 | |  |  | | |  | | |  | | | 177 | |  |  | | |  | | |  |  |  | | |  | | |
| Total fair value of deferred compensation plan liabilities | | | $ | 166 |  |  | | |  | | |  | | | $ | 183 |  |  | | |  | | |  |  |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Represents diversified assets held in a rabbi trust associated with our non-qualified deferred compensation plans, which we include in the “Other current assets” and “Other non-current assets” line items in our Condensed Consolidated Balance Sheet (Unaudited), and which are measured at fair value.

(2)Primarily represents obligations to pay benefits under certain non-qualified deferred compensation plans, which we include in the “Compensation and benefits” and “Other long-term liabilities” line items in our Condensed Consolidated Balance Sheet (Unaudited). Under these plans, participants designate investment options (including stock and fixed-income funds), which serve as the basis for measurement of the notional value of their accounts.

The following table presents the carrying amounts and estimated fair values of our significant financial instruments that were not measured at fair value (carrying amounts of other financial instruments not listed in the table below approximate fair value due to the short-term nature of those items):

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  | | |
|  | | |  | | | **July 1, 2022** | | | | | | | | |  | | | **December 31, 2021** | | | | | | | | |  |  |  |  |  |  |  |  |
| **(In millions)** | | | | | | **Carrying Amount** | | |  | | | **Fair Value** | | |  | | | **Carrying Amount** | | |  | | | **Fair Value** | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Long-term debt (including current portion)(1) | | | | | | $ | 7,044 |  |  | | | $ | 6,836 |  |  | | | $ | 7,059 |  |  | | | $ | 7,701 |  |  |  |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)The fair value was estimated using a market approach based on quoted market prices for our debt traded in the secondary market. If our long-term debt in our balance sheet was measured at fair value, it would be categorized in Level 2 of the fair value hierarchy.

See *Note I — Goodwill and Other Intangible Assets* in these Notes and *Note 3: Business Divestitures and Asset Sales* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K for additional information regarding fair value measurements associated with goodwill.

**NOTE O— DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

In the normal course of business, we are exposed to global market risks, including the effect of changes in foreign currency exchange rates. We use derivative instruments to manage our exposure to such risks and formally document all relationships between hedging instruments and hedged items, as well as the risk-management objective and strategy for undertaking hedge transactions. We also may enter into derivative instruments that are not designated as hedges and do not qualify for hedge accounting. We recognize all derivatives in our Condensed Consolidated Balance Sheet (Unaudited) at fair value. We do not hold or issue derivatives for speculative trading purposes.

**Exchange Rate Risk — Cash Flow Hedges**

To manage our exposure to currency risk and market fluctuation risk associated with anticipated cash flows that are probable of occurring in the future, we implement cash flow hedges. More specifically, we use foreign currency forward contracts and options to hedge off-balance sheet future foreign currency commitments, including purchase commitments to suppliers, future committed sales to customers and intersegment transactions. These derivatives are used to hedge currency exposures from cash flows anticipated across our business segments. We also hedge U.S. Dollar payments to suppliers to maintain our anticipated profit margins in our international operations. These derivatives have only nominal intrinsic value at the time of purchase and

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have a high degree of correlation to the anticipated cash flows they are designated to hedge. Hedge effectiveness is determined by the correlation of the anticipated cash flows from the hedging instruments and the anticipated cash flows from the future foreign currency commitments through the maturity dates of the derivatives used to hedge these cash flows. These financial instruments are marked-to-market using forward prices and fair value quotes with the offset to other comprehensive income (loss). Gains and losses in AOCI are reclassified to earnings when the related hedged item is recognized in earnings. The cash flow impact of our derivatives is included in the same category in our Condensed Consolidated Statement of Cash Flows (Unaudited) as the cash flows of the related hedged items. Notional amounts are used to measure the volume of foreign currency forward contracts and do not represent exposure to foreign currency losses. At July 1, 2022, we had open foreign currency forward contracts with an aggregate notional amount of $262 million, hedging certain forecasted transactions denominated in Canadian Dollars, U.S. Dollars, British Pounds, Euros and Australian Dollars. At December 31, 2021, we had open foreign currency forward contracts with an aggregate notional amount of $328 million, hedging certain forecasted transactions denominated in U.S. Dollars, Canadian Dollars, British Pounds, Euros and Australian Dollars.

At July 1, 2022, our foreign currency forward contracts had maturities through 2025.

The following table presents the fair values of our derivatives designated as foreign currency hedging instruments in our Condensed Consolidated Balance Sheet (Unaudited) at July 1, 2022 and December 31, 2021:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
| **(In millions)** | | |  | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
| **Foreign currency forward contracts(1)** | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
| Other current assets | | |  | | | $ | 2 |  |  | | | $ | 2 |  |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
| Other non-current assets | | |  | | | 1 | |  |  | | | 1 | |  |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
| Other accrued items | | |  | | | 9 | |  |  | | | 5 | |  |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
| Other long-term liabilities | | |  | | | 1 | |  |  | | | — | |  |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  | | |  | | |  | | |  | | |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)See *Note N — Fair Value Measurements* in these Notes for a description of the fair value hierarchy related to our foreign currency forward contracts.

Gains and losses from foreign currency derivatives designated as cash flow hedges are included in the line item in our Condensed Consolidated Statement of Income (Unaudited) associated with the hedged transaction, with the exception of the losses resulting from discontinued cash flow hedges, which are included in the “Engineering, selling and administrative expenses” line item in our Condensed Consolidated Statement of Income (Unaudited).

**NOTE P— CHANGES IN ESTIMATES**

Under the POC cost-to-cost method of revenue recognition, a single estimated profit margin is used to recognize profit for each performance obligation over its period of performance. Recognition of profit on a contract requires estimates of the total cost at completion and transaction price and the measurement of progress towards completion. Due to the long-term nature of many of our contracts, developing the estimated total cost at completion and total transaction price often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance. Factors that must be considered in estimating the total transaction price include contractual cost or performance incentives (such as incentive fees, award fees and penalties) and other forms of variable consideration as well as our historical experience and our expectation for performance on the contract. These variable amounts generally are awarded upon achievement of certain negotiated performance metrics, program milestones or cost targets and can be based upon customer discretion. We include such estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard Estimate at Completion (“EAC”) process in which we review the progress and performance on our ongoing contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, as the contract progresses, our estimates of total transaction price may increase or decrease if, for example, we receive award fees that are higher or lower than expected. When adjustments in estimated total costs at completion or in estimated total transaction price are determined, the related impact on operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Any anticipated losses on these contracts are fully recognized in the period in which the losses become evident.

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Net EAC adjustments had the following impact to earnings for the periods presented:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |
| **(In millions, except per share amounts)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Net EAC adjustments, before income taxes | | | $ | 12 |  |  | | | $ | 80 |  |  | | | $ | 58 |  |  | | | $ | 162 |  |
| Net EAC adjustments, net of income taxes | | | 9 | |  |  | | | 60 | |  |  | | | 44 | |  |  | | | 122 | |  |
| Net EAC adjustments, net of income taxes, per diluted share | | | 0.05 | |  |  | | | 0.29 | |  |  | | | 0.23 | |  |  | | | 0.59 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |

Revenue recognized from performance obligations satisfied in prior periods was $32 million and $90 million for the quarter and two quarters ended July 1, 2022, respectively, and $107 million and $215 million for the quarter and two quarters ended July 2, 2021, respectively.

**NOTE Q— BACKLOG**

Backlog, which is the equivalent of our remaining performance obligations, represents the future revenue we expect to recognize as we perform on our current contracts. Backlog comprises both funded backlog (i.e., firm orders for which funding is authorized and appropriated) and unfunded backlog. Backlog excludes unexercised contract options and potential orders under ordering-type contracts, such as indefinite delivery, indefinite quantity contracts.

At July 1, 2022, our ending backlog was $19.9 billion. We expect to recognize approximately 39% of the revenue associated with this backlog by the end of 2022 and approximately 68% by the end of 2023, with the remainder to be recognized thereafter. At December 31, 2021, our ending backlog was $21.1 billion.

**NOTE R— BUSINESS SEGMENT INFORMATION**

Effective for fiscal 2022, which began January 1, 2022, we report our financial results in the following three reportable segments:

•Integrated Mission Systems, including multi-mission intelligence, surveillance and reconnaissance (“ISR”) systems; integrated electrical and electronic systems for maritime platforms; advanced electro-optical and infrared (“EO/IR”) solutions; fuzing and ordnance systems; commercial aviation products; and commercial pilot training operations;

•Space & Airborne Systems, including space payloads, sensors and full-mission solutions; classified intelligence and cyber; avionics; electronic warfare; and mission networks for air traffic management operations; and

•Communication Systems, including tactical communications with global communications solutions; broadband communications; integrated vision solutions; and public safety radios, system applications and equipment.

We structure our operations primarily around the products, systems and services we sell and the markets we serve. Effective January 1, 2022, we have streamlined our business segments from four business segments to three business segments. As a result of the segment reorganization, the Aviation Systems segment was eliminated as a business segment. As part of our new business segment structure, the ongoing operations that had been part of our former Aviation Systems segment were integrated into the remaining segments. Fuzing and ordnance systems, commercial aviation products and commercial pilot training operations were moved into our Integrated Mission Systems segment; and mission networks for air traffic management operations was moved into our Space & Airborne Systems segment.

See *Note B — Business Divestitures and Asset Sales* in these Notes for information relating to businesses divested and asset sales during the quarter and two quarters ended July 1, 2022 and July 2, 2021.

The accounting policies of our business segments are the same as those described in *Note 1: “Significant Accounting Policies”* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K. We evaluate each business segment’s performance based on its operating income or loss, which we define as profit or loss from operations before income taxes, including CAS pension cost and excluding interest income and expense, royalties and related intellectual property expenses, equity method investment income or loss and gains or losses from securities and other investments. Intersegment sales are generally transferred at cost to the buying segment, and the sourcing segment recognizes a profit that is eliminated. The “Corporate eliminations” line item in the table below represents the elimination of intersegment sales. Corporate expenses are primarily allocated to our business segments using an allocation methodology prescribed by U.S. Government regulations for government contractors. The unallocated items in the table below represent the portion of corporate expenses not allocated to our business segments and elimination of intersegment profits.

In accordance with CAS, we allocate a portion of pension and other postretirement benefit plan costs to our U.S. Government contracts. However, our consolidated financial statements require pension and other postretirement benefit plan income or expense be calculated in accordance with FAS requirements under GAAP. The “FAS/CAS operating adjustment” line item in the table below represents the difference between the service cost component of FAS pension and OPEB expense and total CAS

pension and OPEB cost. The net non-service cost components of FAS pension and OPEB income are included as an income component in the “Non-operating income” line item in our Condensed Consolidated Statement of Income (Unaudited). See *Note K — Postretirement Benefit Plans* for more information on the composition of non-service components of FAS pension and OPEB income and expense.

Segment revenue, segment operating income and a reconciliation of segment operating income to total income from continuing operations before income taxes are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Revenue** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Integrated Mission Systems | | | $ | 1,673 |  |  | | | $ | 1,792 |  |  | | | $ | 3,394 |  |  | | | $ | 3,543 |  |
| Space & Airborne Systems | | | 1,498 | |  |  | | | 1,510 | |  |  | | | 2,948 | |  |  | | | 2,970 | |  |
| Communication Systems | | | 993 | |  |  | | | 1,127 | |  |  | | | 1,956 | |  |  | | | 2,239 | |  |
| Other non-reportable businesses | | | — | |  |  | | | 282 | |  |  | | | — | |  |  | | | 566 | |  |
| Corporate eliminations | | | (29) | |  |  | | | (43) | |  |  | | | (60) | |  |  | | | (83) | |  |
| Total revenue | | | $ | 4,135 |  |  | | | $ | 4,668 |  |  | | | 8,238 | |  |  | | | $ | 9,235 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| **Income from Continuing Operations before Income Taxes** | | | | | | | | | | | | | | | | | | | | | | | |
| *Segment Operating Income:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Integrated Mission Systems | | | $ | 217 |  |  | | | $ | 142 |  |  | | | $ | 472 |  |  | | | $ | 376 |  |
| Space & Airborne Systems | | | 195 | |  |  | | | 204 | |  |  | | | 367 | |  |  | | | 396 | |  |
| Communication Systems | | | 238 | |  |  | | | 276 | |  |  | | | 467 | |  |  | | | 546 | |  |
| Other non-reportable businesses | | | — | |  |  | | | 41 | |  |  | | | — | |  |  | | | 93 | |  |
|  | | | 650 | |  |  | | | 663 | |  |  | | | 1,306 | |  |  | | | 1,411 | |  |
| *Unallocated Items:* | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Unallocated corporate department income (expense), net(1) | | | 17 | |  |  | | | (23) | |  |  | | | 14 | |  |  | | | (54) | |  |
| L3Harris Merger-related transaction, integration and other expenses and losses | | | (26) | |  |  | | | (21) | |  |  | | | (49) | |  |  | | | (44) | |  |
| Amortization of acquisition-related intangibles(2) | | | (151) | |  |  | | | (156) | |  |  | | | (303) | |  |  | | | (320) | |  |
| Business divestiture-related gains, net | | | — | |  |  | | | 180 | |  |  | | | — | |  |  | | | 165 | |  |
| Impairment of goodwill and other assets | | | — | |  |  | | | (63) | |  |  | | | — | |  |  | | | (125) | |  |
| Gain on sale of asset group | | | 8 | |  |  | | | — | |  |  | | | 8 | |  |  | | | — | |  |
| Other divestiture-related expenses | | | (35) | |  |  | | | (49) | |  |  | | | (37) | |  |  | | | (56) | |  |
| FAS/CAS operating adjustment(3) | | | 21 | |  |  | | | 30 | |  |  | | | 43 | |  |  | | | 60 | |  |
|  | | | (166) | |  |  | | | (102) | |  |  | | | (324) | |  |  | | | (374) | |  |
| Non-operating income | | | 108 | |  |  | | | 86 | |  |  | | | 214 | |  |  | | | 203 | |  |
| Net interest expense | | | (67) | |  |  | | | (65) | |  |  | | | (135) | |  |  | | | (131) | |  |
| Income from continuing operations before income taxes | | | $ | 525 |  |  | | | $ | 582 |  |  | | | $ | 1,061 |  |  | | | $ | 1,109 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)For the quarter and two quarters ended July 1, 2022, includes $10 million of income from our deferred compensation plans and $7 million of income from sale of intellectual property. For the quarter ended July 2, 2021 includes $8 million of loss related to our deferred compensation plans. For the two quarters ended July 2, 2021, includes a $15 million accrual for a value added tax obligation and $8 million of loss related to our deferred compensation plans.

(2)Includes amortization of identifiable intangible assets acquired as a result of the all-stock merger between Harris Corporation and L3 Technologies, Inc. (the “L3Harris Merger”) and the acquisition of Exelis Inc. (“Exelis”). Because the L3Harris Merger and the acquisition of Exelis benefited the entire Company as opposed to any individual segment, the amortization of identifiable intangible assets acquired was not allocated to any segment.

(3)Represents the difference between the service cost component of FAS pension and OPEB income and total CAS pension and OPEB cost and replaces the “Pension adjustment” line item previously presented, which included the non-service components of FAS pension and OPEB income. See Net FAS/CAS operating adjustment table below.

The table below is a reconciliation of the FAS/CAS operating adjustment:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  |  |
|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| FAS pension service cost | | | $ | (12) |  |  | | | $ | (18) |  |  | | | $ | (23) |  |  | | | $ | (37) |  |
| Less: CAS pension cost | | | (33) | |  |  | | | (48) | |  |  | | | (66) | |  |  | | | (97) | |  |
| FAS/CAS operating adjustment | | | 21 | |  |  | | | 30 | |  |  | | | 43 | |  |  | | | 60 | |  |
| Non-service FAS pension income | | | 111 | |  |  | | | 111 | |  |  | | | 221 | |  |  | | | 222 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| FAS/CAS pension adjustment, net(1) | | | $ | 132 |  |  | | | $ | 141 |  |  | | | $ | 264 |  |  | | | $ | 282 |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)FAS/CAS pension adjustment, net excludes net settlement and curtailment losses recognized in fiscal 2021.

**Disaggregation of Revenue**

We disaggregate revenue for all three business segments by customer relationship, contract type and geographical region. We believe these categories best depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | |  | | |
|  | | | **Quarter Ended** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | | | | | | | | | | | | | |  | | | **July 2, 2021** | | | | | | | | | | | | | | |  |  |  | | |  | | |
|  | | | **Integrated Mission Systems** | | |  | | | **Space & Airborne Systems** | | |  | | | **Communication Systems** | | |  | | | **Integrated Mission Systems** | | |  | | | **Space & Airborne Systems** | | |  | | | **Communication Systems** | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| **Revenue By Customer Relationship** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Prime contractor | | | $ | 1,082 |  |  | | | $ | 942 |  |  | | | $ | 690 |  |  | | | $ | 1,185 |  |  | | | $ | 921 |  |  | | | $ | 783 |  |  |  |  | | |  | | |
| Subcontractor | | | 577 | |  |  | | | 550 | |  |  | | | 294 | |  |  | | | 594 | |  |  | | | 587 | |  |  | | | 330 | |  |  |  |  | | |  | | |
| Intersegment | | | 14 | |  |  | | | 6 | |  |  | | | 9 | |  |  | | | 13 | |  |  | | | 2 | |  |  | | | 14 | |  |  |  |  | | |  | | |
|  | | | $ | 1,673 |  |  | | | $ | 1,498 |  |  | | | $ | 993 |  |  | | | $ | 1,792 |  |  | | | $ | 1,510 |  |  | | | $ | 1,127 |  |  |  |  | | |  | | |
| **Revenue By Contract Type** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Fixed-price(1) | | | $ | 1,230 |  |  | | | $ | 898 |  |  | | | $ | 833 |  |  | | | $ | 1,350 |  |  | | | $ | 941 |  |  | | | $ | 954 |  |  |  |  | | |  | | |
| Cost-reimbursable | | | 429 | |  |  | | | 594 | |  |  | | | 151 | |  |  | | | 429 | |  |  | | | 567 | |  |  | | | 159 | |  |  |  |  | | |  | | |
| Intersegment | | | 14 | |  |  | | | 6 | |  |  | | | 9 | |  |  | | | 13 | |  |  | | | 2 | |  |  | | | 14 | |  |  |  |  | | |  | | |
|  | | | $ | 1,673 |  |  | | | $ | 1,498 |  |  | | | $ | 993 |  |  | | | $ | 1,792 |  |  | | | $ | 1,510 |  |  | | | $ | 1,127 |  |  |  |  | | |  | | |
| **Revenue By Geographical Region** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| United States | | | $ | 1,223 |  |  | | | $ | 1,311 |  |  | | | $ | 631 |  |  | | | $ | 1,282 |  |  | | | $ | 1,315 |  |  | | | $ | 786 |  |  |  |  | | |  | | |
| International | | | 436 | |  |  | | | 181 | |  |  | | | 353 | |  |  | | | 497 | |  |  | | | 193 | |  |  | | | 327 | |  |  |  |  | | |  | | |
| Intersegment | | | 14 | |  |  | | | 6 | |  |  | | | 9 | |  |  | | | 13 | |  |  | | | 2 | |  |  | | | 14 | |  |  |  |  | | |  | | |
|  | | | $ | 1,673 |  |  | | | $ | 1,498 |  |  | | | $ | 993 |  |  | | | $ | 1,792 |  |  | | | $ | 1,510 |  |  | | | $ | 1,127 |  |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
|  | | | **Two Quarters Ended** | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |  |  |  | | |  | | |
| **(In millions)** | | | **July 1, 2022** | | | | | | | | | | | | | | |  | | | **July 2, 2021** | | | | | | | | | | | | | | |  |  |  | | |  | | |
|  | | | **Integrated Mission Systems** | | |  | | | **Space & Airborne Systems** | | |  | | | **Communication Systems** | | |  | | | **Integrated Mission Systems** | | |  | | | **Space & Airborne Systems** | | |  | | | **Communication Systems** | | |  |  |  | | |  | | |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| **Revenue By Customer Relationship** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Prime contractor | | | $ | 2,214 |  |  | | | $ | 1,872 |  |  | | | $ | 1,347 |  |  | | | $ | 2,374 |  |  | | | $ | 1,797 |  |  | | | $ | 1,512 |  |  |  |  | | |  | | |
| Subcontractor | | | 1,151 | |  |  | | | 1,064 | |  |  | | | 590 | |  |  | | | 1,144 | |  |  | | | 1,168 | |  |  | | | 702 | |  |  |  |  | | |  | | |
| Intersegment | | | 29 | |  |  | | | 12 | |  |  | | | 19 | |  |  | | | 25 | |  |  | | | 5 | |  |  | | | 25 | |  |  |  |  | | |  | | |
|  | | | $ | 3,394 |  |  | | | $ | 2,948 |  |  | | | $ | 1,956 |  |  | | | $ | 3,543 |  |  | | | $ | 2,970 |  |  | | | $ | 2,239 |  |  |  |  | | |  | | |
| **Revenue By Contract Type** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| Fixed-price(1) | | | $ | 2,507 |  |  | | | $ | 1,762 |  |  | | | $ | 1,631 |  |  | | | $ | 2,644 |  |  | | | $ | 1,855 |  |  | | | $ | 1,894 |  |  |  |  | | |  | | |
| Cost-reimbursable | | | 858 | |  |  | | | 1,174 | |  |  | | | 306 | |  |  | | | 874 | |  |  | | | 1,110 | |  |  | | | 320 | |  |  |  |  | | |  | | |
| Intersegment | | | 29 | |  |  | | | 12 | |  |  | | | 19 | |  |  | | | 25 | |  |  | | | 5 | |  |  | | | 25 | |  |  |  |  | | |  | | |
|  | | | $ | 3,394 |  |  | | | $ | 2,948 |  |  | | | $ | 1,956 |  |  | | | $ | 3,543 |  |  | | | $ | 2,970 |  |  | | | $ | 2,239 |  |  |  |  | | |  | | |
| **Revenue By Geographical Region** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |
| United States | | | $ | 2,468 |  |  | | | $ | 2,590 |  |  | | | $ | 1,256 |  |  | | | $ | 2,557 |  |  | | | $ | 2,589 |  |  | | | $ | 1,618 |  |  |  |  | | |  | | |
| International | | | 897 | |  |  | | | 346 | |  |  | | | 681 | |  |  | | | 961 | |  |  | | | 376 | |  |  | | | 596 | |  |  |  |  | | |  | | |
| Intersegment | | | 29 | |  |  | | | 12 | |  |  | | | 19 | |  |  | | | 25 | |  |  | | | 5 | |  |  | | | 25 | |  |  |  |  | | |  | | |
|  | | | $ | 3,394 |  |  | | | $ | 2,948 |  |  | | | $ | 1,956 |  |  | | | $ | 3,543 |  |  | | | $ | 2,970 |  |  | | | $ | 2,239 |  |  |  |  | | |  | | |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Includes revenue derived from time-and-materials contracts.

Total assets by business segment are as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **December 31, 2021** | | |
|  | | |  | | |  | | |  | | |
| **Total Assets** | | |  | | |  | | |  | | |
| Integrated Mission Systems | | | $ | 11,761 |  |  | | | $ | 11,830 |  |
| Space & Airborne Systems | | | 8,381 | |  |  | | | 8,151 | |  |
| Communication Systems | | | 6,170 | |  |  | | | 6,035 | |  |
| Other non-reportable businesses | | | — | |  |  | | | 3 | |  |
| Corporate(1) | | | 7,826 | |  |  | | | 8,690 | |  |
|  | | | $ | 34,138 |  |  | | | $ | 34,709 |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(1)Identifiable intangible assets acquired in connection with the L3Harris Merger in the two quarters ended January 3, 2020 and our acquisition of Exelis in fiscal 2015 were recorded as Corporate assets because they benefited the entire Company as opposed to any individual segment. Identifiable intangible asset balances recorded as Corporate assets were $6.3 billion and $6.6 billion at July 1, 2022 and December 31, 2021, respectively. Corporate assets also consisted of cash, income taxes receivable, deferred income taxes, deferred compensation plan investments, buildings and equipment, as well as any assets of discontinued operations and divestitures.

**NOTE S— LEGAL PROCEEDINGS AND CONTINGENCIES**

From time to time, as a normal incident of the nature and kind of businesses in which we are or were engaged, various claims or charges are asserted and litigation or arbitration is commenced by or against us arising from or related to matters, including, but not limited to: product liability; personal injury; patents, trademarks, trade secrets or other intellectual property; labor and employee disputes; commercial or contractual disputes; strategic acquisitions or divestitures; the prior sale or use of former products allegedly containing asbestos or other restricted materials; breach of warranty; environmental matters; or compliance with government procurement or related legal or regulatory requirements. Claimed amounts against us may be substantial, but may not bear any reasonable relationship to the merits of the claim or the extent of any real risk of court or arbitral awards. We record accruals for losses related to those matters against us that we consider to be probable and that can be reasonably estimated. Gain contingencies, if any, are recognized when they are realized and legal costs generally are expensed when incurred. At July 1, 2022, our accrual for the potential resolution of lawsuits, claims, investigations or proceedings that we consider probable of being decided unfavorably to us was not material. Although it is not feasible to predict the outcome of these matters with certainty, it is reasonably possible that some lawsuits, claims, investigations or proceedings may be disposed of or decided unfavorably to us and in excess of the amounts currently accrued. Based on available information, in the opinion of management, settlements, arbitration awards and final judgments, if any, that are considered probable of being rendered against us in litigation or arbitration or resulting from claims or investigations in existence at July 1, 2022 are reserved against or would not have a material adverse effect on our financial condition, results of operations, cash flows or equity.

**Environmental Matters**

We are subject to numerous U.S. Federal, state, local and international environmental laws and regulatory requirements and are involved from time to time in investigations or litigation of various potential environmental issues. We or companies we have acquired are responsible, or alleged to be responsible, for environmental investigation and/or remediation of multiple sites. These sites are in various stages of investigation and/or remediation and in some cases our liability is considered de minimis. Notices from the U.S. Environmental Protection Agency (“EPA”) or equivalent state or international environmental agencies allege that several sites formerly or currently owned and/or operated by us or companies we have acquired, and other properties or water supplies that may be or have been impacted from those operations, contain disposed or recycled materials or wastes and require environmental investigation and/or remediation. These sites include instances of being identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as the “Superfund Act”) and/or equivalent state and international laws. For example, in June 2014, the U.S. Department of Justice, Environment and Natural Resources Division, notified several potentially responsible parties, including Exelis, which we acquired in 2015, of potential responsibility for contribution to the environmental investigation and remediation of multiple locations in Alaska. In addition, in March 2016, the EPA notified over 100 potentially responsible parties, including Exelis, of potential liability for the cost of remediation for the 8.3-mile stretch of the Lower Passaic River in New Jersey, estimated by the EPA to be $1.38 billion. During the fourth quarter of fiscal 2021, the EPA further announced an interim plan to remediate sediment in the upper nine miles of the of the Lower Passaic River with an estimated cost of $441 million. The potential responsible parties’ respective allocations for the Lower Passaic River remediation have not been determined. Although it is not feasible to predict the outcome of these environmental claims made against us, based on available information, in the opinion of our management, any payments we may be required to make as a result of environmental claims made against us in existence at July 1, 2022 are reserved against, covered by insurance or would not have a material adverse effect on our financial condition, results of operations, cash flows or equity.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Shareholders and the Board of Directors of L3Harris Technologies, Inc.

**Results of Review of Interim Financial Statements**

We have reviewed the accompanying condensed consolidated balance sheet of L3Harris Technologies, Inc. and subsidiaries (“the Company”) as of July 1, 2022, the related condensed consolidated statements of income, comprehensive income, equity for the quarters and two quarters ended July 1, 2022 and July 2, 2021, the condensed consolidated statements of cash flows for the two quarters ended July 1, 2022 and July 2, 2021, and the related notes (collectively referred to as the “condensed consolidated interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated interim financial statements for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheet of the Company as of December 31, 2021, the related consolidated statements of income, comprehensive income, cash flows and equity for the year then ended, and the related notes (not presented herein); and in our report dated February 25, 2022, we expressed an unqualified audit opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2021, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for Review Results**

These financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the U.S. Securities and Exchange Commission and the PCAOB. We conducted our review in accordance with the standards of the PCAOB. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ Ernst & Young LLP

Orlando, Florida

July 29, 2022

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|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |
| **ITEM 2.** | | | **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.** | | |

**OVERVIEW**

The following Management’s Discussion and Analysis (“MD&A”) is intended to assist in an understanding of our financial condition and results of operations. This MD&A is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to, our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes appearing elsewhere in this Report (the “Notes”). In addition, reference should be made to our audited Consolidated Financial Statements and accompanying Notes to Consolidated Financial Statements and Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our Fiscal 2021 Form 10-K. Except for the historical information contained herein, the discussions in this MD&A contain forward-looking statements that involve risks and uncertainties. Our future results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in this MD&A under “Forward-Looking Statements and Factors that May Affect Future Results.”

**Inflation**

Given broader inflation in the economy, we are monitoring the risk inflation presents to active and future contracts. To the extent feasible, we have consistently followed the practice of adjusting our prices to reflect the impact of inflation on salaries and fringe benefits for employees and the cost of purchased materials and services. However, our fixed-price contracts could subject us to losses in the event of cost overruns or a significant increase in or a sustained period of increased inflation. During the two quarters ended July 1, 2022, we have not seen broad based increases in costs from inflation that are material to the business as a whole; however, if we begin to experience greater than expected supply chain and labor inflation, our profits and margins under our contracts, in particular fixed price contracts, could be adversely affected.

**KEY DEVELOPMENTS**

The following is a list of the remaining sections of this MD&A, together with our perspective on their contents, which we hope will assist in reading these pages:

•**Results of Operations**— an analysis of our consolidated results of operations and the results in each of our business segments, to the extent the segment operating results are helpful to an understanding of our business as a whole, for the periods presented in our Condensed Consolidated Statement of Income (Unaudited).

•**Liquidity, Capital Resources and Financial Strategies**— an analysis of cash flows, funding of pension plans, common stock repurchases, dividends, capital structure and resources, material cash requirements and commercial commitments.

•**Critical Accounting Policies and Estimates** — a discussion of accounting policies and estimates that require the most judgment and a discussion of accounting pronouncements that have been issued but not yet implemented by us and their potential impact on our financial condition, results of operations, cash flows and equity.

•**Forward-Looking Statements and Factors that May Affect Future Results** — cautionary information about forward-looking statements and a description of certain risks and uncertainties that could cause our actual results to differ materially from our historical results or our current expectations or projections.

Effective January 1, 2022, we streamlined our business segments from four business segments to three business segments. As a result of the segment reorganization, the Aviation Systems segment was eliminated as a business segment. Effective for fiscal 2022, which began January 1, 2022, we reported our financial results in the following three reportable segments:

•Integrated Mission Systems, including multi-mission ISR systems; integrated electrical and electronic systems for maritime platforms; advanced EO/IR solutions; fuzing and ordnance systems; commercial aviation products; and commercial pilot training operations;

•Space & Airborne Systems, including space payloads, sensors and full-mission solutions; classified intelligence and cyber; avionics; electronic warfare; and mission networks for air traffic management operations; and

•Communication Systems, including tactical communications with global communications solutions; broadband communications; integrated vision solutions; and public safety radios, system applications and equipment.

The following business divestitures and asset sales were completed in the two quarters ended July 1, 2022 and July 2, 2021:

•On April 29, 2022, we completed one business divestiture, the results of which are reported as part of our Integrated Mission Systems segment through the date of divestiture and on May 31, 2022, we completed the sale of certain assets from our Integrated Mission Systems segment;

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•CPS business, definitive agreement entered into on March 1, 2021 and classified as held for sale during the quarter ended April 2, 2021 and divested on July 2, 2021, the results of which are reported as part of other non-reportable businesses through the date of divestiture;

•Military training business, definitive agreement entered into on February 27, 2021 and classified as held for sale during the quarter ended April 2, 2021 and divested on July 2, 2021, the results of which are reported as part of other non-reportable businesses through the date of divestiture; and

•VSE disposal group, definitive agreement entered into on February 23, 2021 and classified as held for sale during the quarter ended July 3, 2020 and partially divested on July 2, 2021, with the remainder divested on July 30, 2021, the results of which are reported as part of other non-reportable businesses through the date of divestiture.

See *Note B — Business Divestitures and Asset Sales* in the Notes for additional information regarding asset sales and businesses divested for sale during the quarter and two quarters ended July 1, 2022 and July 2, 2021.

**RESULTS OF OPERATIONS**

**Consolidated Results of Operations**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Quarter Ended** | | | | | | | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in millions, except per share amounts)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
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| Revenue | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |
| Integrated Mission Systems | | | $ | 1,673 |  |  | | | $ | 1,792 |  |  | | | (7) | | % |  | | | $ | 3,394 |  |  | | | $ | 3,543 |  |  | | | (4) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Space & Airborne Systems | | | 1,498 | |  |  | | | 1,510 | |  |  | | | (1) | | % |  | | | 2,948 | |  |  | | | 2,970 | |  |  | | | (1) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Communication Systems | | | 993 | |  |  | | | 1,127 | |  |  | | | (12) | | % |  | | | 1,956 | |  |  | | | 2,239 | |  |  | | | (13) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Other non-reportable businesses | | | — | |  |  | | | 282 | |  |  | | | \* | | |  | | | — | |  |  | | | 566 | |  |  | | | \* | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Corporate eliminations | | | (29) | |  |  | | | (43) | |  |  | | | (33) | | % |  | | | (60) | |  |  | | | (83) | |  |  | | | (28) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Total revenue | | | 4,135 | |  |  | | | 4,668 | |  |  | | | (11) | | % |  | | | 8,238 | |  |  | | | 9,235 | |  |  | | | (11) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Total cost of product sales and services | | | (2,907) | |  |  | | | (3,251) | |  |  | | | (11) | | % |  | | | (5,767) | |  |  | | | (6,464) | |  |  | | | (11) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| *% of total revenue* | | | *70* | | *%* |  | | | *70* | | *%* |  | | |  | | |  | | | *70* | | *%* |  | | | *70* | | *%* |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Gross margin | | | 1,228 | |  |  | | | 1,417 | |  |  | | | (13) | | % |  | | | 2,471 | |  |  | | | 2,771 | |  |  | | | (11) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| *% of total revenue* | | | *30* | | *%* |  | | | *30* | | *%* |  | | |  | | |  | | | *30* | | *%* |  | | | *30* | | *%* |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Engineering, selling and administrative expenses | | | (744) | |  |  | | | (891) | |  |  | | | (16) | | % |  | | | (1,489) | |  |  | | | (1,692) | |  |  | | | (12) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| *% of total revenue* | | | *18* | | *%* |  | | | *19* | | *%* |  | | |  | | |  | | | *18* | | *%* |  | | | *18* | | *%* |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Business divestiture-related gains, net | | | — | |  |  | | | 180 | |  |  | | | \* | | |  | | | — | |  |  | | | 165 | |  |  | | | \* | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Impairment of goodwill and other assets | | | — | |  |  | | | (145) | |  |  | | | \* | | |  | | | — | |  |  | | | (207) | |  |  | | | \* | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Non-operating income | | | 108 | |  |  | | | 86 | |  |  | | | 26 | | % |  | | | 214 | |  |  | | | 203 | |  |  | | | 5 | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Net interest expense | | | (67) | |  |  | | | (65) | |  |  | | | 3 | | % |  | | | (135) | |  |  | | | (131) | |  |  | | | 3 | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Income from continuing operations before income taxes | | | 525 | |  |  | | | 582 | |  |  | | | (10) | | % |  | | | 1,061 | |  |  | | | 1,109 | |  |  | | | (4) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Income taxes | | | (55) | |  |  | | | (169) | |  |  | | | (67) | | % |  | | | (116) | |  |  | | | (229) | |  |  | | | (49) | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| *Effective tax rate* | | | *10* | | *%* |  | | | *29* | | *%* |  | | |  | | |  | | | *11* | | *%* |  | | | *21* | | *%* |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Income from continuing operations | | | 470 | |  |  | | | 413 | |  |  | | | 14 | | % |  | | | 945 | |  |  | | | 880 | |  |  | | | 7 | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Noncontrolling interests, net of income taxes | | | 1 | |  |  | | | — | |  |  | | | \* | | |  | | | 1 | |  |  | | | 2 | |  |  | | | \* | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Income from continuing operations attributable to L3Harris common shareholders | | | $ | 471 |  |  | | | $ | 413 |  |  | | | 14 | | % |  | | | $ | 946 |  |  | | | $ | 882 |  |  | | | 7 | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| *% of total revenue* | | | *11* | | *%* |  | | | *9* | | *%* |  | | |  | | |  | | | *11* | | *%* |  | | | *10* | | *%* |  | | |  | | |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
| Diluted EPS | | | $ | 2.42 |  |  | | | $ | 2.01 |  |  | | | 20 | | % |  | | | $ | 4.86 |  |  | | | $ | 4.26 |  |  | | | 14 | | % |  |  |  | | |  | | |  | | |  | | |  | | |  | | |  | |  |
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•Not meaningful

***Revenue and Gross Margin***

*One Quarter Comparison:* Revenue declined 11% in the quarter ended July 1, 2022 compared to the quarter ended July 2, 2021, primarily from $270 million of lower revenue from the impact of completed business divestitures, continued supply chain

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disruptions and airborne program transitions. Additionally, the quarter ended July 1, 2022 had one less working day compared to the quarter ended July 2, 2021 as the company recognized the Juneteenth holiday within the 2022 quarter. Gross margin and gross margin as a percentage of revenue (“gross margin percentage”) decreased in the quarter ended July 1, 2022 compared to the quarter ended July 2, 2021 primarily due to a mix of program revenue and product sales with relatively lower operating margin percentage for the quarter ended July 1, 2022, as well as the impact of supply chain disruptions on higher margin businesses.

*Two Quarters Comparison:* Revenue declined 11% in the two quarters ended July 1, 2022 compared to the two quarters ended July 2, 2021, primarily from $538 million of lower revenue from the impact of completed business divestitures, as well as the reasons noted above in the one quarter comparison of revenue. Gross margin and gross margin percentage decreased in the two quarters ended July 1, 2022 compared to the two quarters ended July 2, 2021 primarily due to a mix of program revenue and product sales with relatively lower operating margin percentage for the two quarters ended July 1, 2022, as well as the impact of supply chain disruptions on higher margin businesses.

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

***Engineering, Selling and Administrative Expenses***

*One Quarter Comparison:* The decreases in engineering, selling and administrative (“ESA”) expenses and ESA expense as a percentage of revenue (“ESA percentage”) in the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 were primarily due to $47 million of lower costs from the impact of completed business divestitures, $39 million of lower R&D expenses, $30 million from the impact of changes in market value related to our deferred compensation plan liabilities and $15 million of lower divestiture-related expenses.

*Two Quarters Comparison:* The decreases in ESA expenses and ESA percentage in the two quarters ended July 1, 2022 compared with the two quarters ended July 2, 2021 were primarily due to $85 million of lower costs from the impact of completed business divestitures, $35 million of lower R&D expenses, $41 million from the impact of changes in market value related to our deferred compensation plan liabilities and $21 million of lower divestiture-related expenses.

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

***Business Divestiture-Related Gains***

The “Business divestiture-related gains, net” line item in our Condensed Consolidated Statement of Income (Unaudited) is comprised of the following pre-tax gains associated with businesses divested. There were no significant gains or losses during the quarter or two quarters ended July 1, 2022.

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|  | | |  |  | **Two Quarters Ended** | | | | | | |  |  |  |  |  |  |
| **(In millions)** | | |  |  | **July 2, 2021** | | |  | | |  |  | | | **July 2, 2021** | | |
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| VSE disposal group | | |  |  | $ | (18) |  |  | | |  |  | | | $ | (26) |  |
| CPS business(1) | | |  |  | (12) | |  |  | | |  |  | | | (19) | |  |
| Military training business | | |  |  | 212 | |  |  | | |  |  | | | 212 | |  |
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| Other | | |  |  | (2) | |  |  | | |  |  | | | (2) | |  |
|  | | |  |  |  | | |  | | |  |  | | |  | | |
| Total business divestiture-related gains, net | | |  |  | $ | 180 |  |  | | |  |  | | | $ | 165 |  |

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(1)During the quarter ended April 2, 2021, upon classifying the CPS business as held for sale, we recorded a non-cash impairment charge of $62 million, which is included in the “Impairment of goodwill and other assets” line item in our Condensed Consolidated Statement of Income (Unaudited) for the two quarters ended July 2, 2021. See *Note I — Goodwill and Other Intangible Assets* in the Notes for additional information.

See *Note B — Business Divestitures and Asset Sales* in the Notes for further information.

***Impairment of Goodwill and Other Assets***

*One Quarter Comparison:* No impairment charges were recorded in the quarter ended July 1, 2022. Impairment of goodwill and other assets in the quarter ended July 2, 2021 reflected $145 million of non-cash charges for the impairment of identifiable intangible and other long-lived assets related to our CTS business.

*Two Quarters Comparison:* No impairment charges were recorded in the two quarters ended July 1, 2022. Impairment of goodwill and other assets in the two quarters ended July 2, 2021 reflected $62 million of non-cash charges for the impairment of goodwill and other assets associated with the divestiture of the CPS business and $145 million of non-cash charges for the impairment of identifiable intangible and other long-lived assets related to our CTS business.

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See *Note B — Business Divestitures and Asset Sales* and *Note I — Goodwill and Other Intangible Assets* in the Notes for further information.

***Non-Operating Income***

*One Quarter Comparison and Two Quarters Comparison:* The increase in non-operating income in the quarter and two quarters ended July 1, 2022 compared with the quarter and two quarters ended July 2, 2021 was primarily due to a $35 million charge for impairment of our equity investment in a nonconsolidated affiliate during the quarter ended July 2, 2021.

***Net Interest Expense***

*One Quarter Comparison and Two Quarters Comparison:* Our net interest expense increased in the quarter and two quarters ended July 1, 2022 compared with the quarter and two quarters ended July 2, 2021 primarily due to lower interest income in the quarter and two quarters ended July 1, 2022.

See *Note 13: Debt* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K for further information.

***Income Taxes***

*One Quarter Comparison:* Our effective tax rate (income taxes as a percentage of income from continuing operations before income taxes) was 10.5% for the quarter ended July 1, 2022 compared with 29.0% for the quarter ended July 2, 2021. For the quarter ended July 1, 2022, our effective tax rate benefited from the favorable impact of R&D credits, incremental FDII benefit resulting from the requirement to capitalize and amortize R&D expenses beginning in fiscal 2022 and the resolution of specific audit uncertainties. For the quarter ended July 2, 2021, our effective tax rate was unfavorably impacted by non-deductible goodwill from completed business divestitures, partially offset by the favorable impacts of R&D credits, the resolution of specific audit uncertainties, and excess tax benefits related to equity-based compensation.

*Two Quarters Comparison:* Our effective tax rate was 10.9% for the two quarters ended July 1, 2022 compared with 20.6% for the two quarters ended July 2, 2021. Our effective tax rate for the two quarters ended July 1, 2022 was favorably impacted by a reduction in the deferred tax liabilities on the outside basis of certain foreign subsidiaries due to an internal restructuring and the items described above in the one quarter comparison of income taxes. Our effective tax rate for the two quarters ended July 2, 2021 were impacted by the items described above in the one quarter comparison of income taxes.

***Income From Continuing Operations***

*One Quarter Comparison:* The increase in income from continuing operations in the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 was primarily due to the combined effects of the reasons noted in the sections above regarding the quarter ended July 1, 2022 and quarter ended July 2, 2021.

*Two Quarters Comparison:* The increase in income from continuing operations in the two quarters ended July 1, 2022 compared with the two quarters ended July 2, 2021 was primarily due to the combined effects of the reasons noted in the sections above regarding the two quarters ended July 1, 2022 and two quarters ended July 2, 2021.

***Diluted EPS***

*One Quarter Comparison and Two Quarters Comparison:* Diluted EPS attributable to L3Harris common shareholders in the quarter and two quarters ended July 1, 2022 increased compared with the quarter and two quarters ended July 2, 2021, primarily due to higher net income from the combined effects of the reasons noted in the sections above regarding the quarter and two quarters ended July 1, 2022 and quarter and two quarters ended July 2, 2021 and fewer diluted weighted average common shares outstanding, reflecting the repurchases of shares of our common stock under our repurchase program in the quarter and two quarters ended July 1, 2022.

See the “Common Stock Repurchases” discussion below in this MD&A for further information.

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**Discussion of Business Segment Results of Operations**

***Integrated Mission Systems Segment (“IMS”)***

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|  | | | **Quarter Ended** | | | | | | | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | | | | | | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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| Revenue | | | $ | 1,673 |  |  | | | $ | 1,792 |  |  | | | (7) | | % |  | | | $ | 3,394 |  |  | | | $ | 3,543 |  |  | | | (4) | | % |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Operating income | | | 217 | |  |  | | | 142 | |  |  | | | 53 | | % |  | | | 472 | |  |  | | | 376 | |  |  | | | 26 | | % |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| *Operating income as a percentage of revenue (“operating margin”)* | | | *13.0* | | *%* |  | | | *7.9* | | *%* |  | | |  | | |  | | | *13.9* | | *%* |  | | | *10.6* | | *%* |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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*One Quarter Comparison:* IMS revenue for the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 decreased 7%, reflecting a decline of $38 million in ISR, primarily due to $107 million lower revenue on a North Atlantic Treaty Organization aircraft missionization program, partially offset by an increase in aircraft subcontractor progress for a U.S. Government customer. IMS revenue was also driven by declines of $38 million from lower volume on fuzing and ordnance systems and other related programs, $33 million in Electro Optical, primarily due to a decline in WESCAM airborne turret delivery volumes, reflecting supply chain constraints and $30 million in Maritime primarily due to supplier and material delays. The declines were partially offset by an increase of $28 million in Commercial Aviation Solutions, primarily due to an increase in pilot training center volume and the sale of end-of-life inventory.

IMS operating margin for the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 expanded 510 basis points to 12.9%, primarily due to an $82 million non-cash impairment charge at Commercial Aviation Solutions in the quarter ended July 2, 2021 as well as higher volumes in Commercial Aviation Solutions, partially offset by a mix of program revenue and product sales with relatively lower operating margin percentages for the quarter ended July 1, 2022.

*Two Quarters Comparison:* IMS revenue for two quarters ended July 1, 2022 compared with two quarters ended July 2, 2021 decreased 4%, reflecting a decline of $73 million in ISR, primarily due to $186 million lower revenue on a North Atlantic Treaty Organization aircraft missionization program, partially offset by an increase in aircraft subcontractor progress for aircraft missionization programs. IMS revenue was also driven by declines of $85 million from lower volume on fuzing and ordnance systems and other related programs, $9 million in Electro Optical, primarily due to a decline in WESCAM airborne turret delivery volumes, reflecting supply chain constraints and $8 million in Maritime primarily due to supplier and material delays. The declines were partially offset by higher revenue on Virginia-class and classified programs and an increase of $38 million in Commercial Aviation Solutions, primarily due to an increase in pilot training center volume and sale of end-of-life inventory.

IMS operating margin for two quarters ended July 1, 2022 compared with two quarters ended July 2, 2021 expanded 330 basis points to 13.9%, primarily due to an $82 million non-cash impairment charge at Commercial Aviation Solutions in the quarter ended July 2, 2021, as well as higher volumes in Commercial Aviation Solutions, partially offset by a mix of program revenue and product sales with relatively lower operating margin percentages for the quarter ended July 1, 2022.

***Space & Airborne Systems Segment (“SAS”)***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Quarter Ended** | | | | | | | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | | | | | | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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| Revenue | | | $ | 1,498 |  |  | | | $ | 1,510 |  |  | | | (1) | | % |  | | | $ | 2,948 |  |  | | | $ | 2,970 |  |  | | | (1) | | % |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Operating income | | | 195 | |  |  | | | 204 | |  |  | | | (4) | | % |  | | | 367 | |  |  | | | 396 | |  |  | | | (7) | | % |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| *Operating margin* | | | *13.0* | | *%* |  | | | *13.5* | | *%* |  | | |  | | |  | | | *12.4* | | *%* |  | | | *13.3* | | *%* |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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*One Quarter Comparison:* SAS revenue for the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 decreased 1%, primarily driven by a $35 million decline in our airborne businesses, reflecting production transitions and lower development on the F-35 program and a $25 million decline in Intel & Cyber primarily driven by classified program transitions. The declines were partially offset by a $53 million increase in revenue in Space, reflecting growth in responsive satellite programs.

SAS operating margin for the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 contracted 50 basis points to 13.0% from lower risk retirements and a mix of program revenue and product sales with a relatively lower operating margin percentage for the quarter ended July 1, 2022, partially offset by a decrease in R&D as current quarter expenses normalized following elevated spend in the quarter ended July 2, 2021.

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*Two Quarters Comparison:* SAS revenue for two quarters ended July 1, 2022 compared with two quarters ended July 2, 2021 decreased 1%, primarily driven by a $104 million decline in our airborne businesses, reflecting production transitions and lower development on the F-35 program and a $41 million decline in Intel & Cyber due to classified program transitions. The declines were partially offset by a $113 million increase in revenue in Space, reflecting growth in responsive satellite programs.

SAS operating margin for two quarters ended July 1, 2022 compared with two quarters ended July 2, 2021 contracted 90 basis points to 12.4% from lower risk retirements and a mix of program revenue and product sales with a relatively lower operating margin percentage for the quarter ended July 1, 2022, partially offset by a decrease in R&D expenses as current year expenses normalized following elevated spend in the two quarters ended July 2, 2021.

***Communication Systems Segment (“CS”)***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Quarter Ended** | | | | | | | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | | | | | | | |  | | |  | | |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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| Revenue | | | $ | 993 |  |  | | | $ | 1,127 |  |  | | | (12) | | % |  | | | $ | 1,956 |  |  | | | $ | 2,239 |  |  | | | (13) | | % |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Operating income | | | 238 | |  |  | | | 276 | |  |  | | | (14) | | % |  | | | 467 | |  |  | | | 546 | |  |  | | | (14) | | % |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| *Operating margin* | | | *24.0* | | *%* |  | | | *24.5* | | *%* |  | | |  | | |  | | | *23.9* | | *%* |  | | | *24.4* | | *%* |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
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*One Quarter Comparison:* CS revenue for the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 decreased 12% as Broadband Communications declined $69 million, due to lower volume on legacy platforms and Tactical Communications declined $66 million, primarily from continued supply chain disruptions arising from electronic component shortages. This was partially offset by modest growth within Public Safety from market recovery.

CS operating margin for the quarter ended July 1, 2022 compared with the quarter ended July 2, 2021 contracted 50 basis points to 24.0% primarily due to volume and supply chain impacts, as noted in the discussion above regarding CS revenue.

*Two Quarters Comparison:* CS revenue for two quarters ended July 1, 2022 compared with two quarters ended July 2, 2021 decreased 13%, as Broadband Communications declined $141 million, due to lower volume on legacy platforms and Tactical Communications declined $125 million, primarily from continued supply chain disruptions arising from electronic component shortages, which also impacted Integrated Vision Solutions and Public Safety.

CS operating margin for two quarters ended July 1, 2022 compared with two quarters ended July 2, 2021 contracted 50 basis points to 23.9% primarily due to volume and supply chain impacts, as noted in the discussion above regarding CS revenue.

***Unallocated Corporate Expenses***

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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|  | | | **Quarter Ended** | | | | | | | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | | | | | | | |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **(Dollars in millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **% Inc/(Dec)** | | |  |  |  |  |  |  |  |  | | |  | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  | | |  | |  |
| Unallocated corporate department income (expense), net(1) | | | $ | 17 |  |  | | | $ | (23) |  |  | | | \* | | |  | | | $ | 14 |  |  | | | $ | (54) |  |  | | | \* | | |  |  |  |  |  |  |  |  | | |  | |  |
| L3Harris Merger-related transaction, integration and other expenses and losses | | | (26) | |  |  | | | (21) | |  |  | | | 24 | | % |  | | | (49) | |  |  | | | (44) | |  |  | | | 11 | | % |  |  |  |  |  |  |  |  | | |  | |  |
| Amortization of acquisition-related intangibles | | | (151) | |  |  | | | (156) | |  |  | | | (3) | | % |  | | | (303) | |  |  | | | (320) | |  |  | | | (5) | | % |  |  |  |  |  |  |  |  | | |  | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  | | |  | |  |
| Business divestiture-related gains, net | | | — | |  |  | | | 180 | |  |  | | | \* | | |  | | | — | |  |  | | | 165 | |  |  | | | \* | | |  |  |  |  |  |  |  |  | | |  | |  |
| Impairment of goodwill and other assets | | | — | |  |  | | | (63) | |  |  | | | \* | | |  | | | — | |  |  | | | (125) | |  |  | | | \* | | |  |  |  |  |  |  |  |  | | |  | |  |
| Gain on sale of asset group | | | 8 | |  |  | | | — | |  |  | | | \* | | |  | | | 8 | |  |  | | | — | |  |  | | | \* | | |  |  |  |  |  |  |  |  | | |  | |  |
| Other divestiture-related expenses | | | (35) | |  |  | | | (49) | |  |  | | | (29) | | % |  | | | (37) | |  |  | | | (56) | |  |  | | | (34) | | % |  |  |  |  |  |  |  |  | | |  | |  |
| FAS/CAS operating adjustment | | | 21 | |  |  | | | 30 | |  |  | | | (30) | | % |  | | | 43 | |  |  | | | 60 | |  |  | | | (28) | | % |  |  |  |  |  |  |  |  | | |  | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |  |  |  |  |  |  |  |  | | |  | |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_

•Not meaningful

(1) For the quarter and two quarters ended July 1, 2022, includes $10 million of income from our deferred compensation plans and $7 million of income from sale of intellectual property. For the quarter ended July 2, 2021 includes $8 million of loss related to our deferred compensation plans. For the two quarters ended July 2, 2021, includes a $15 million accrual for a value added tax obligation and $8 million of loss related to our deferred compensation plans.

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**LIQUIDITY, CAPITAL RESOURCES AND FINANCIAL STRATEGIES**

**Cash Flows**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | | **Two Quarters Ended** | | | | | | | | |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  |  |
|  | | |  | | |  | | |  | | |  |  |
| Net cash provided by operating activities | | | $ | 788 |  |  | | | $ | 1,381 |  |  |  |
| Net cash (used in) provided by investing activities | | | (121) | |  |  | | | 1,307 | |  |  |  |
| Net cash used in financing activities | | | (1,174) | |  |  | | | (1,937) | |  |  |  |
| Effect of exchange rate changes on cash and cash equivalents | | | (14) | |  |  | | | 2 | |  |  |  |
| Net (decrease) increase in cash and cash equivalents | | | (521) | |  |  | | | 753 | |  |  |  |
| Cash and cash equivalents, beginning of period | | | 941 | |  |  | | | 1,276 | |  |  |  |
| Cash and cash equivalents, end of period | | | $ | 420 |  |  | | | $ | 2,029 |  |  |  |

***Cash and cash equivalents:*** At July 1, 2022 we had cash and cash equivalents of $420 million and we have a senior unsecured $2 billion revolving credit facility that expires in June 2024 (all of which was available to us as of July 1, 2022). Additionally, we had $7.0 billion of net long-term debt outstanding at July 1, 2022. Our $420 million of cash and cash equivalents at July 1, 2022 included $231 million held by our foreign subsidiaries, a significant portion of which we believe can be repatriated to the U.S. with minimal tax cost.

Given our current cash position, outlook for funds generated from operations, credit ratings, available credit facility, cash needs and debt structure, we have not experienced to date, and do not expect to experience, any material issues with liquidity, although, we can give no assurances concerning our future liquidity, particularly in light of our overall level of debt, U.S. Government budget uncertainties and the state of global commerce and general political and financial uncertainty. We cannot predict the on-going impact that COVID, among other potential risks and uncertainties, will have on our cash from operating activities. Additionally, the provisions in the Tax Cuts and Jobs Act of 2017 require that, beginning in fiscal 2022, research and experimental expenditures be capitalized and amortized over five years, which we estimate will have an approximately $600 million to $700 million impact to cash from operating activities in fiscal 2022 based on the provisions currently in effect, however, there was no impact to cash from operating activities during the first two quarters of 2022. See Item 1A. “Risk Factors” of our Fiscal 2021 Form 10-K and Part II, Item 1A. “Risk Factors” in this Report.

Based on our current business plan and revenue prospects, we believe that our existing cash, funds generated from operations, our credit facility and access to the public and private debt and equity markets will be sufficient to provide for our anticipated working capital requirements, capital expenditures, dividend payments, repurchases under our share repurchase program and repayments of our debt securities at maturity for the next twelve months and reasonably foreseeable future thereafter. Our total capital expenditures for fiscal 2022 are expected to be approximately $300 million. We anticipate tax payments in fiscal 2022 to be approximately equal to or marginally less than our tax expense for the same period, absent R&D capitalization and subject to adjustment for timing differences. Other than those cash outlays noted in “Material Cash Requirements” in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Fiscal 2021 Form 10-K and in the “Material Cash Requirements and Commercial Commitments” section below in this MD&A, capital expenditures, dividend payments and repurchases under our share repurchase program, we do not anticipate any significant cash outlays during the remainder of fiscal 2022.

There can be no assurance that our business will continue to generate cash flows at current levels or that the cost or availability of future borrowings, if any, under our commercial paper program, or our credit facility or in the debt markets will not be impacted by any potential future credit or capital markets disruptions. If we are unable to maintain cash balances, generate cash flow from operations or borrow under our commercial paper program or our credit facility sufficient to service our obligations, we may be required to reduce capital expenditures, reduce or eliminate strategic acquisitions, reduce or terminate our share repurchases, reduce or eliminate dividends, refinance all or a portion of our existing debt, obtain additional financing, or sell assets. Our ability to make principal payments or pay interest on or refinance our indebtedness depends on our future performance and financial results, which, to a certain extent, are subject to general conditions affecting the defense, government and other markets we serve and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

***Net cash provided by operating activities:*** The $593 million decrease in net cash provided by operating activities in the two quarters ended July 1, 2022 compared with the two quarters ended July 2, 2021 was primarily due to a $320 million increase in cash used to fund working capital (i.e., accounts receivable, contract assets, inventories, accounts payable and contract liabilities), a $111 million increase in cash used to fund other accrued items (i.e. other expenses and accruals, payroll related taxes and warranty reserve) and the impact of $30 million of lower net income (excluding the impact of non-cash items such as depreciation and amortization, impairment of goodwill and other assets and gains related to business divestitures).

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***Net cash used in investing activities:*** The $1,428 million increase in net cash used in investing activities in the two quarters ended July 1, 2022 compared with the two quarters ended July 2, 2021 was primarily due to a $1,428 million decrease in net cash proceeds from sales of businesses and a $30 million increase in cash used for equity investments, partially offset by a $18 million increase in proceeds from sale of asset group, and an $11 million decrease of net cash used for additions of property, plant and equipment in fiscal 2022.

***Net cash used in financing activities:*** The $763 million decrease in net cash used in financing activities in the two quarters ended July 1, 2022 compared with the two quarters ended July 2, 2021 was primarily due to a $821 million decrease in cash used to repurchase our common stock under our share repurchase program, partially offset by a $36 million increase in cash used for tax withholding payments associated with vested share-based awards and a $19 million increase cash used to pay dividends.

**Funding of Pension Plans**

Funding requirements under applicable laws and regulations are a major consideration in making contributions to our U.S. pension plans. Although we have significant discretion in making voluntary contributions, the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006 and further amended by the Worker, Retiree, and Employer Recovery Act of 2008, the Moving Ahead for Progress in the 21st Century Act (“MAP-21”), and applicable Internal Revenue Code regulations, mandate minimum funding thresholds. The Highway and Transportation Funding Act of 2014, the Bipartisan Budget Act of 2015, the American Rescue Plan Act of 2021 and the Infrastructure Investment and Jobs Act further extended the interest rate stabilization provision of MAP-21. Failure to satisfy the minimum funding thresholds could result in restrictions on our ability to amend the plans or make benefit payments. With respect to our U.S. qualified defined benefit pension plans, we intend to contribute annually no less than the required minimum funding thresholds. As a result of prior voluntary contributions and plan performance, we are not required to make any contributions to our U.S. qualified defined benefit pension plans in fiscal 2022 and for several years thereafter.

Future required contributions primarily will depend on the actual annual return on assets and the discount rate used to measure the benefit obligation at the end of each year. Depending on these factors, and the resulting funded status of our pension plans, the level of future statutory required minimum contributions could be material. We had net unfunded defined benefit plan obligations of $436 million as of July 1, 2022. See *Note 14: “Pension and Other Postretirement Benefits”* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K and *Note K — Postretirement Benefit Plans* in the Notes for further information regarding our pension plans.

**Common Stock Repurchases**

During the two quarters ended July 1, 2022, we used $729 million to repurchase 3.1 million shares of our common stock under our share repurchase program at an average price per share of $234.77, including commissions of $0.02 per share. During the two quarters ended July 2, 2021, we used $1.55 billion to repurchase 7.7 million shares of our common stock under our share repurchase program at an average price per share of $201.52, including commissions of $0.02 per share. During the two quarters ended July 1, 2022 and July 2, 2021, $38 million and $2 million, respectively, in shares of our common stock were delivered to us or withheld by us to satisfy withholding taxes on employee share-based awards. Shares repurchased by us are cancelled and retired.

On January 28, 2021, we announced that our Board of Directors approved a new $6 billion share repurchase authorization under our share repurchase program that was in addition to the remaining unused authorization of $210 million at January 1, 2021, under our prior share repurchase program, for a total unused authorization of $6.2 billion. Our share repurchase program does not have a stated expiration. At July 1, 2022, we had a remaining unused authorization under our share repurchase program of $1.8 billion. Repurchases under our share repurchase program may be made through open-market transactions, private transactions, transactions structured through investment banking institutions or any combination thereof. The level of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board and management may deem relevant. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time. Additional information regarding our current share repurchase program is set forth in this Report under Part II, Item 2. “Unregistered Sales of Equity Securities and Use of Proceeds.”

**Dividends**

On February 25, 2022, our Board of Directors increased the quarterly per share cash dividend rate on our common stock from $1.02 to $1.12, commencing with the dividend declared by our Board of Directors for the first quarter of fiscal 2022, for an annualized per share cash dividend rate of $4.48, which was our twenty-first consecutive annual increase in our quarterly cash dividend rate. Quarterly cash dividends are typically paid in March, June, September and December. We paid $435 million in cash dividends during the two quarters ended July 1, 2022. We currently expect that cash dividends will continue to be paid in the near future, but we can give no assurances concerning payment of future dividends or future dividend increases. The declaration

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of dividends and the amount thereof will depend on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors may deem relevant.

**Capital Structure and Resources**

***2019 Credit Agreement:*** We have a $2 billion, 5-year senior unsecured revolving credit facility (the “2019 Credit Facility”) under a Revolving Credit Agreement (as amended, the “2019 Credit Agreement”) entered into on June 28, 2019 with a syndicate of lenders. For a description of the 2019 Credit Facility and the 2019 Credit Agreement, see *Note 12: “Credit Arrangements”* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K.

We were in compliance with the covenants in the 2019 Credit Agreement at July 1, 2022, including the covenant requiring that we not permit our ratio of consolidated total indebtedness to total capital, each as defined in the 2019 Credit Agreement, to be greater than 0.65 to 1.00. At July 1, 2022, we had no borrowings outstanding under the 2019 Credit Agreement.

***Long-Term Debt:*** For a description of our long-term variable-rate and fixed-rate debt, see *Note 13: “Debt”* in the Notes to Consolidated Financial Statements in our Fiscal 2021 Form 10-K.

***Short-Term Debt:*** Our short-term debt was $2 million at July 1, 2022 and $2 million at December 31, 2021, consisting of local borrowing by international subsidiaries for working capital needs.

***Other Agreements:*** We have two RSAs with two separate third-party financial institutions that permit us to sell, on a non-recourse basis, up to an aggregate of $100 million of outstanding receivables at any given time. From time to time, we have sold certain customer receivables under the RSAs, which we continue to service and collect on behalf of the third-party financial institution and we account for as sales of receivables with sale proceeds included in net cash from operating activities. We did not have outstanding accounts receivable sold pursuant to the RSAs at July 1, 2022. Outstanding accounts receivable sold pursuant to the RSAs were $99.9 million at December 31, 2021, with net cash proceeds of $99.8 million.

**Material Cash Requirements and Commercial Commitments**

The amounts disclosed in our Fiscal 2021 Form 10-K include our material cash requirements and commercial commitments. There were no material changes during the two quarters ended July 1, 2022 in our material cash requirements from contractual cash obligations to repay debt, to purchase goods and services, to make payments under operating leases or our commercial commitments, or in our contingent liabilities on outstanding surety bonds, standby letters of credit or other arrangements as disclosed in our Fiscal 2021 Form 10-K.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our Condensed Consolidated Financial Statements (Unaudited) and accompanying Notes are prepared in accordance with GAAP. Preparing financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and backlog as well as disclosures of contingent assets and liabilities. Actual results may differ from our estimates. These estimates and assumptions are affected by the application of our accounting policies. Critical accounting policies and estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies and estimates for us include: (i) revenue recognition on contracts and contract estimates; (ii) postretirement benefit plans; (iii) impairment testing of goodwill; (iv) accounting for business combinations; and (v) income taxes and tax valuation allowances. For additional discussion of our critical accounting policies and estimates, see “Critical Accounting Policies and Estimates” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Fiscal 2021 Form 10-K.

**Revenue Recognition**

A significant portion of our business is derived from development and production contracts. Revenue and profit related to development and production contracts are generally recognized over time, typically using the POC cost-to-cost method of revenue recognition, whereby we measure our progress towards completion of the performance obligation based on the ratio of costs incurred to date to estimated costs at completion under the contract. Because costs incurred represent work performed, we believe this method best depicts the transfer of control of the asset to the customer. Under the POC cost-to-cost method of revenue recognition, a single estimated profit margin is used to recognize profit for each performance obligation over its period of performance. Recognition of profit on a contract requires estimates of the total cost at completion and transaction price and the measurement of progress towards completion. Due to the long-term nature of many of our contracts, developing the estimated total cost at completion and total transaction price often requires judgment. Factors that must be considered in estimating the cost of the work to be completed include: the nature and complexity of the work to be performed, subcontractor performance and the risk and impact of delayed performance. Factors that must be considered in estimating the total transaction price include contractual cost or performance incentives (such as incentive fees, award fees and penalties) and other forms of variable consideration as well as our historical experience and our expectation for performance on the contract. These variable amounts

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generally are awarded upon achievement of certain negotiated performance metrics, program milestones or cost targets and can be based upon customer discretion. We include such estimated amounts in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is resolved.

At the outset of each contract, we gauge its complexity and perceived risks and establish an estimated total cost at completion in line with these expectations. After establishing the estimated total cost at completion, we follow a standard EAC process in which we review the progress and performance on our ongoing contracts at least quarterly and, in many cases, more frequently. If we successfully retire risks associated with the technical, schedule and cost aspects of a contract, we may lower our estimated total cost at completion commensurate with the retirement of these risks. Conversely, if we are not successful in retiring these risks, we may increase our estimated total cost at completion. Additionally, as the contract progresses, our estimates of total transaction price may increase or decrease if, for example, we receive award fees that are higher or lower than expected. When adjustments in estimated total costs at completion or in estimated total transaction price are determined, the related impact on operating income is recognized using the cumulative catch-up method, which recognizes in the current period the cumulative effect of such adjustments for all prior periods. Any anticipated losses on these contracts are fully recognized in the period in which the losses become evident.

EAC adjustments had the following impacts to operating income for the periods presented:

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|  | | | **Quarter Ended** | | | | | | | | |  | | | **Two Quarters Ended** | | | | | | | | |  |  |  |  |  |  |  |  |
| **(In millions)** | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  | | | **July 1, 2022** | | |  | | | **July 2, 2021** | | |  |  |  | | |  | | |
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| Favorable adjustments | | | $ | 99 |  |  | | | $ | 165 |  |  | | | $ | 234 |  |  | | | $ | 327 |  |  |  |  | | |  | | |
| Unfavorable adjustments | | | (87) | |  |  | | | (85) | |  |  | | | (176) | |  |  | | | (165) | |  |  |  |  | | |  | | |
| Net operating income adjustments | | | $ | 12 |  |  | | | $ | 80 |  |  | | | $ | 58 |  |  | | | $ | 162 |  |  |  |  | | |  | | |

The net favorable impact to operating income from EAC adjustments in the quarter and two quarters ended July 1, 2022 reflected benefits of operational performance on programs, including additional retirement of risks and material and labor cost savings. There were no individual impacts to operating income due to EAC adjustments in the quarter or two quarters ended July 1, 2022 or July 2, 2021 that were material to our results of operations on a consolidated or segment basis for such periods.

We recognize revenue from numerous contracts with multiple performance obligations. For these contracts, we allocate the transaction price to each performance obligation based on the relative standalone selling price of the good or service underlying each performance obligation. The standalone selling price represents the amount for which we would sell the good or service to a customer on a standalone basis (i.e., not sold as bundled sale with any other products or services). The allocation of transaction price among separate performance obligations may impact the timing of revenue recognition but will not change the total revenue recognized on the contract.

A substantial majority of our revenue is derived from contracts with the U.S. Government, including foreign military sales contracts. These contracts are subject to the Federal Acquisition Regulation (“FAR”) and the prices of our contract deliverables are typically based on our estimated or actual costs plus a reasonable profit margin. As a result, the standalone selling prices of the goods and services in these contracts are typically equal to the selling prices stated in the contract, thereby eliminating the need to allocate (or reallocate) the transaction price to the multiple performance obligations. In our non-U.S. Government contracts, when standalone selling prices are not directly observable, we also generally use the expected cost plus margin approach to determine standalone selling price. In determining the appropriate margin under the cost plus margin approach, we consider historical margins on similar products sold to similar customers or within similar geographies where objective evidence is available. We may also consider our cost structure and profit objectives, the nature of the proposal, the effects of customization of pricing, our practices used to establish pricing of bundled products, the expected technological life of the product, margins earned on similar contracts with different customers and other factors to determine the appropriate margin.

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**FORWARD-LOOKING STATEMENTS AND FACTORS THAT MAY AFFECT FUTURE RESULTS**

This Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that may not materialize or prove to be correct, which could cause our results to differ materially from those expressed in or implied by such forward-looking statements. All statements other than statements of historical fact are statements that could be deemed forward-looking statements, including, but not limited to, statements concerning: our plans, strategies and objectives for future operations; new products, systems, technologies, services or developments; future economic conditions, performance or outlook; future political conditions; the outcome of contingencies; the potential level of share repurchases, dividends or pension contributions; potential acquisitions or divestitures; the value of contract awards and programs; expected cash flows or capital expenditures; our beliefs or expectations; activities, events or developments that we intend, expect, project, believe or anticipate will or may occur in the future, including expected COVID-related impacts to our businesses; and assumptions underlying any of the foregoing. Forward-looking statements may be identified by their use of forward-looking terminology, such as “believes,” “expects,” “may,” “should,” “would,” “will,” “intends,” “plans,” “estimates,” “anticipates,” “projects” 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 filing of this Report and are not guarantees of future performance or actual results. Forward-looking statements are made in reliance on the safe harbor provisions of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The following are some of the factors we believe could cause our actual results to differ materially from our historical results or our current expectations or projections:

•The effects of COVID could have a material adverse effect on our business operations, financial condition, results of operations, cash flows and equity.

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

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

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

•Our results of operations and cash flows are substantially affected by our mix of fixed-price, cost-plus and time-and-material type contracts. In particular, our fixed-price contracts could subject us to losses in the event of cost overruns or a significant increase in inflation.

•Our commercial aviation products, systems and services businesses are affected by global demand and economic factors that could negatively impact our financial results.

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

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

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

•We are subject to government investigations, which could have a material adverse effect on our business, financial condition, results of operations, cash flows and equity.

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

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

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

•To the extent some of our workforce is or becomes represented by labor unions, a prolonged work stoppage could harm our business.

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

•We have significant operations in locations that could be materially and adversely impacted in the event of a natural disaster or other significant disruption.

•Changes in estimates we use in accounting for many of our programs could adversely affect our future financial results.

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

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

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

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

•We may not be successful in obtaining the necessary export licenses to conduct certain operations abroad, and Congress may prevent proposed sales to certain foreign governments.

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

•The outcome of litigation or arbitration in which we are involved from time to time is unpredictable, and an adverse decision in any such matter could have a material adverse effect on our financial condition, results of operations, cash flows and equity.

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

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

•Unforeseen environmental issues, including regulations related to greenhouse gas emissions or change in customer sentiment related to environmental sustainability, could have a material adverse effect on our business, financial condition, results of operations, cash flows and equity.

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

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

Additional details and discussions concerning some of the factors that could affect our forward-looking statements or future results are set forth in our Fiscal 2021 Form 10-K under Item 1A. “Risk Factors” and in Part II, Item 1A. “Risk Factors” in this Report. The foregoing list of factors and the factors set forth in Item 1A. “Risk Factors” included in our Fiscal 2021 Form 10-K and in Part II, Item 1A. “Risk Factors” in this Report are not exhaustive. Additional risks and uncertainties not known to us or that we currently believe not to be material also may adversely impact our business, financial condition, results of operations, cash flows and equity. Should any risks or uncertainties develop into actual events, these developments could have a material adverse effect on our business, financial condition, results of operations, cash flows and equity. The forward-looking statements contained in this Report are made as of the date of filing of this Report, and we disclaim any intention or obligation, other than imposed by law, to update or revise any forward-looking statements or to update the reasons actual results could differ materially from those projected in the forward-looking statements, whether as a result of new information, future events or developments or otherwise.

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| **ITEM 3.** | | | **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.** | | |

In the normal course of business, we are exposed to the risks associated with foreign currency exchange rates and changes in interest rates. We employ established policies and procedures governing the use of financial instruments to manage our exposure to such risks. There were no material changes during the two quarters ended July 1, 2022 with respect to the information appearing in Part II, Item 7A, “Quantitative and Qualitative Disclosures about Market Risk” of our Fiscal 2021 Form 10-K.

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| **ITEM 4.** | | | **CONTROLS AND PROCEDURES.** | | |

**(a) Evaluation of Disclosure Controls and Procedures:** We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives, and management necessarily is required to use its judgment in evaluating the cost-benefit relationship of possible controls and procedures. As required by Rule 13a-15 under the Exchange Act, as of July 1, 2022, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of our

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management, including our Chief Executive Officer and our Chief Financial Officer. Based on this work and other evaluation procedures, our management, including our Chief Executive Officer and our Chief Financial Officer, has concluded that as of July 1, 2022 our disclosure controls and procedures were effective at the reasonable assurance level.

**(b) Changes in Internal Control:** We periodically review our internal control over financial reporting as part of our efforts to ensure compliance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. In addition, we routinely review our system of internal control over financial reporting to identify potential changes to our processes and systems that may improve controls and increase efficiency, while ensuring that we maintain an effective internal control environment. Changes may include such activities as implementing new, more efficient systems, consolidating the activities of business units, migrating certain processes to our shared services organizations, formalizing policies and procedures, improving segregation of duties and increasing monitoring controls. In addition, when we acquire new businesses, we incorporate our controls and procedures into the acquired business as part of our integration activities. There have been no changes in our internal control over financial reporting that occurred during the quarter ended July 1, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

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| **ITEM 1.** | | | **LEGAL PROCEEDINGS.** | | |

See *Note S — Legal Proceedings and Contingencies* in the Notes for discussion regarding material legal proceedings and contingencies. Except as set forth in such discussion, there have been no material developments in legal proceedings as reported in Item 3. “Legal Proceedings” of our Fiscal 2021 Form 10-K.

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| **ITEM 1A.** | | | **RISK FACTORS.** | | |

Investors should carefully review and consider the information regarding certain factors that could materially affect our business, results of operations, financial condition, cash flows and equity as set forth in Item 1A. “Risk Factors” of our Fiscal 2021 Form 10-K. There have been no material changes, other than the amendment below, to the risk factors disclosed in our Fiscal 2021 Form 10-K. We may disclose changes to our risk factors or disclose additional risk factors from time to time in our future filings with the SEC. Additional risks and uncertainties not presently known to us or that we currently believe not to be material also may adversely impact our business, financial condition, results of operations, cash flows and equity.

***Our results of operations and cash flows are substantially affected by our mix of fixed-price, cost-plus and time-and-material type contracts. In particular, our fixed-price contracts could subject us to losses in the event of cost overruns or a significant increase in or sustained period of increased inflation.***

We generate revenue through various fixed-price, cost-plus and time-and-material contracts. For a general description of our U.S. Government contracts and subcontracts, including a discussion of revenue generated thereunder and of cost-reimbursable versus fixed-price contracts, see “Item 1. Business - Principal Customers; Government Contracts” of our Fiscal 2021 Form 10-K. For a description of our revenue recognition policies, see “Item 7. Management’s Discussion and Analysis of Financial Conditions and Results of Operations - Critical Accounting Policies and Estimates - Revenue Recognition” of our Fiscal 2021 Form 10-K.

In fiscal 2021, 74% of our revenue was derived from fixed-price contracts which allow us to benefit from cost savings, but subject us to the risk of potential cost overruns, including due to greater than anticipated or a sustained period of increased inflation or unexpected delays, particularly for firm fixed-price contracts because we assume all of the cost burden. If our initial estimates are incorrect, we can lose money (or make more or less money than estimated) on these contracts. U.S. Government contracts can expose us to potentially large losses because the U.S. Government can hold us responsible for completing a project or, in certain circumstances, paying the entire cost of its replacement by another provider regardless of the size or foreseeability of any cost overruns that occur over the life of the contract. Because many of these contracts involve new technologies and applications and can last for years, unforeseen events, such as technological difficulties, fluctuations in the price of raw materials, a significant increase in or sustained period of increased inflation, problems with our suppliers and cost overruns, can result in the contractual price becoming less favorable or even unprofitable to us over time (which, especially in the case of sharp and significant sustained inflation, could happen quickly). Furthermore, if we do not meet contract deadlines or specifications, we may need to renegotiate contracts on less favorable terms, be forced to pay penalties or liquidated damages or suffer major losses if the customer exercises its right to terminate. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Cost overruns would adversely impact our results of operations, which are dependent on our ability to maximize our earnings from our contracts, and the potential risk would be greater if our contracts shifted toward a greater percentage of fixed-price contracts, particularly firm fixed-price contracts. In addition, changes in contract financing policy for fixed-price contracts, such as changes in performance and progress payments policies, including a reversal or modification of the DoD’s March 2020 increase to the applicable progress payment rate from 80% to 90%, could significantly affect the timing of our cash flows.

In fiscal 2021, 26% of our revenue was derived from cost-plus and time-and-material contracts, substantially all of which are with U.S. Government customers. Sales to foreign government and commercial customers are generally under fixed-price arrangements and are included in our fixed-price contract sales. For a cost-plus contract, we are paid our allowable incurred costs plus a profit, which can be fixed or variable depending on the contract’s fee arrangement up to predetermined funding levels established by our customers. For a time-and-material contract, we are paid on the basis of direct labor hours expended at specified fixed-price hourly rates (which include wages, overhead, allowable general and administrative expenses and profit) and materials at cost. Therefore, on cost-plus and time-and-material type contracts, we do not bear the risks of unexpected cost overruns, provided that we do not incur costs that exceed the predetermined funded amounts.

To the extent feasible, we have consistently followed the practice of adjusting our prices to reflect the impact of inflation on salaries and fringe benefits for employees and the cost of purchased materials and services. However, reports show a sharp increase in inflation since in late 2021. Our fixed-price contracts could subject us to losses in the event of cost overruns or such a significant increase in or a sustained period of increased inflation.

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

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| **ITEM 2.** | | | **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.** | | |

**Issuer Purchases of Equity Securities**

During the quarter ended July 1, 2022, we repurchased 1.8 million shares of our common stock under our share repurchase program for $421 million at an average share price of $237.28, excluding commissions of $0.02 per share. The level and timing of our repurchases depends on a number of factors, including our financial condition, capital requirements, cash flows, results of operations, future business prospects and other factors our Board of Directors and management may deem relevant. We have announced that we currently expect to repurchase up to $1.5 billion in shares under our repurchase program in fiscal 2022, but we can give no assurances regarding the level and timing of share repurchases. The timing, volume and nature of repurchases are subject to market conditions, applicable securities laws and other factors and are at our discretion and may be suspended or discontinued at any time. Shares repurchased by us are cancelled and retired.

The following table sets forth information with respect to repurchases by us of our common stock during the quarter ended July 1, 2022:

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| **Period\*** | | | **Total number of shares purchased** | | |  | | | **Average price paid per share** | | |  | | | **Total number of**  **shares purchased as part of publicly**  **announced plans or programs(1)** | | |  | | | **Maximum approximate dollar value of shares that may**  **yet be purchased under the plans or programs(1)**  **($ in millions)** | | |
| Month No. 1 | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| (April 2, 2022-April 29, 2022) | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Repurchase program(1) | | | 20,931 | |  |  | | | $ | 243.44 |  |  | | | 20,931 | |  |  | | | $2,223 | |  |
| Employee transactions(2) | | | 6,517 | |  |  | | | $ | 250.99 |  |  | | | — | |  |  | | | — | |  |
| Month No. 2 | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| (April 30, 2022-May 27, 2022) | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Repurchase program(1) | | | 1,645,000 | |  |  | | | $ | 237.98 |  |  | | | 1,645,000 | |  |  | | | $1,831 | |  |
|  | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Employee transactions(2) | | | 3,167 | |  |  | | | $ | 237.73 |  |  | | | — | |  |  | | | — | |  |
| Month No. 3 | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| (May 28, 2022-July 1, 2022) | | |  | | |  | | |  | | |  | | |  | | |  | | |  | | |
| Repurchase program(1) | | | 109,319 | |  |  | | | $ | 225.61 |  |  | | | 109,319 | |  |  | | | $1,807 | |  |
| Employee transactions(2) | | | 136,772 | |  |  | | | $ | 242.76 |  |  | | | — | |  |  | | | — | |  |
| Total | | | 1,921,706 | |  |  | | |  | | |  | | | 1,775,250 | |  |  | | | $1,807 | |  |

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

\* Periods represent our fiscal months.

(1) On January 28, 2021, we announced that our Board of Directors approved a $6 billion share repurchase authorization under our share repurchase program that was in addition to the remaining unused authorization of $210 million as of January 1, 2021. We repurchase shares of our common stock through open-market purchases, private transactions, transactions structured through investment banking institutions or any combination thereof. As of July 1, 2022, $1.8 billion (as reflected in the table above) was the approximate dollar amount of our common stock that can still be purchased under our share repurchase program, which does not have a stated expiration date.

(2) Represents a combination of (a) shares of our common stock delivered to us in satisfaction of the tax withholding obligation of holders of performance units, restricted units or restricted shares that vested during the quarter and (b) performance units, restricted units or restricted shares returned to us upon retirement or employment termination of employees. Our equity incentive plans provide that the value of shares delivered to us to pay the exercise price of options or to cover tax withholding obligations shall be the closing price of our common stock on the date the relevant transaction occurs.

**Sales of Unregistered Equity Securities**

During the second quarter of fiscal 2022, we did not issue or sell any unregistered equity securities.

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| **ITEM 3.** | | | **DEFAULTS UPON SENIOR SECURITIES** | | |
|  | | |  | | |

None.

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| **ITEM 4.** | | | **MINE SAFETY DISCLOSURES.** | | |

Not applicable.

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| **ITEM 5.** | | | **OTHER INFORMATION.** | | |

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None.

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| **ITEM 6.** | | | **EXHIBITS.** | | |

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

[(3)(a) Restated Certificate of Incorporation of L3Harris Technologies, Inc. (1995), as amended](https://www.sec.gov/Archives/edgar/data/0000202058/000020205822000029/exhibit3arestatedcertifi.htm).

[(3)(b) Amended and Restated By-Laws of L3Harris Technologies, Inc., as amended.](https://www.sec.gov/Archives/edgar/data/0000202058/000020205822000029/exhibit3bby-lawamendment.htm)

[(15)    Letter Regarding Unaudited Interim Financial Information.](exhibit15q2cy2210-q.htm)

[(31.1)    Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.](exhibit311cy22-q210xq.htm)

[(31.2)    Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.](exhibit312cy22-q210xq.htm)

[(32.1)    Section 1350 Certification of Chief Executive Officer.](exhibit321cy22-q210xq.htm)

[(32.2)    Section 1350 Certification of Chief Financial Officer.](exhibit322cy22-q210xq.htm)

(101) The financial information from L3Harris Technologies, Inc.’s Quarterly Report on Form 10-Q for the fiscal quarter ended July 1, 2022 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Statement of Comprehensive Income, (iii) the Condensed Consolidated Balance Sheet, (iv) the Condensed Consolidated Statement of Cash Flows, (v) the Condensed Consolidated Statement of Equity, and (vi) the Notes to Condensed Consolidated Financial Statements.

(104) Cover Page Interactive Data File formatted in Inline XBRL and contained in Exhibit 101.

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**SIGNATURES**

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

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|  | | |  | | | **L3HARRIS TECHNOLOGIES, INC.** | | | | | | | | |
|  | | |  | | | (Registrant) | | | | | | | | |
| Date: July 29, 2022 | | |  | | | By: | | |  | | | /s/    MICHELLE L. TURNER | | |
|  | | |  | | |  | | |  | | | Michelle L. Turner | | |
|  | | |  | | |  | | |  | | | Senior Vice President and Chief Financial Officer (Principal Financial Officer) | | |

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