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

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

(Mark One)

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

For the fiscal year ended June 29, 2007

or

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

For the transition period from to

Commission File Number 001-33278

HARRIS STRATEX NETWORKS, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

None

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

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

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer þ	Smaller reporting company o

(Do not check if a smaller reporting company)

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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EXPLANATORY NOTE

We have restated our annual consolidated financial statements for the years ended June 29, 2007, June 30, 2006 and July 1, 2005 in this Amendment to Form 10-K (Form 10-K/A) for the year ended June 29, 2007. This Form 10-K/A also reflects the restatement of Item 6 Selected Financial Data and Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated) for the fiscal years ended June 29, 2007, June 30, 2006, July 1, 2005 and July 2, 2004.

Previously filed (i) annual consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 included in the Company s Annual Report on Form 10-K (Form 10-K) for the year ended June 29, 2007 and (ii) related reports of its independent registered public accountants should no longer be relied upon. This restatement also affects, and is reflected in, other items in this Form 10-K/A.

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

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

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

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

The effect of these restatement items decreased shareholders equity cumulatively by $11.6 million and $7.7 million as of June 29, 2007 and June 30, 2006, respectively. In addition, the effect of these restatement items reduced shareholders equity by $4.9 million and $1.9 million as of July 1, 2005 and July 2, 2004, respectively. Division equity, which was reclassified to additional paid in capital at the merger date of January 26, 2007, deceased from the amount previously reported by $8.3 million. Net loss was increased by $3.9 million, $2.8 million, $3.0 million and $1.9 million for the fiscal years ended June 29, 2007, June 30, 2006, July 1, 2005 and July 2, 2004 respectively.

This restatement is more fully described in Part I herein under Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated) and in Item 15 Exhibits and Financial Statement Schedules of Part IV of our consolidated financial statements and related notes, including, without limitation, in Note D Restatement to Previously Issued Financial Statements to such consolidated financial statements.

HARRIS STRATEX NETWORKS, INC.
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This Annual Report on Form 10-K/A contains trademarks of Harris Stratex Networks, Inc.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

We are subject to customer credit risk.

Developing new technologies entails significant risks and uncertainties.

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

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

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PART I.

Item 1. *Business.*

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

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

Acquisition of Stratex Networks, Inc. and Combination with MCD

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

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

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

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

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

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Overview of Companies prior to the Business Combination

Stratex Networks, Inc.

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

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

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

Harris Corporation s Microwave Communications Division

MCD designed, manufactured and sold a broad range of microwave radios for use in worldwide wireless communications networks. Applications included wireless/mobile infrastructure connectivity; secure data networks; public safety transport for state, local and federal government users; and right-of-way connectivity for utilities, pipelines, railroads and industrial companies. In general, wireless networks are constructed using microwave radios and other equipment to connect cell sites, fixed-access facilities, switching systems, land mobile radio systems and other wireless transmission systems. For many applications, microwave systems offer a lower-cost, highly reliable alternative to competing transmission technologies such as fiber, coaxial cable or copper wire systems. MCD s product line spanned frequencies from 2 to 38 GHz and included:

- *The TRuepoint® family of microwave radios.* MCD s next-generation microwave point-to-point radio platform, which provides Synchronous Digital Hierarchy (SDH) and Plesiochronous Digital Hierarchy (PDH) in a single platform and is designed to meet the current and future needs of network operators, including mobile, private network, government and access service providers. The unique architecture of the core platform reduces both capital expenditures and life cycle costs, while meeting international and North American standards and regulatory requirements. The software-based architecture enables transition between traditional microwave access applications and higher-capacity transport interconnections. The wide range of capacities, interfaces, modulation schemes, frequency/channel plans and power levels have been made available to meet the requirements of networks around the world. The TRuepoint product family delivered service from 4 to 180 megabits per second (Mbps) capacity at frequencies ranging from 6 to 38 GHz;

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

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

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

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

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

Overview of Integrated Company after the Business Combination

We design, manufacture and sell a range of wireless networking products, solutions and services to mobile and fixed telephone service providers, private network operators, government agencies, transportation and utility companies, public safety agencies and broadcast system operators across the globe. Products include point-to-point digital microwave radio systems for mobile system access, backhaul, trunking and license-exempt applications, supporting new network deployments, network expansion, and capacity upgrades. We offer a broad range of products, including the products developed and sold by both Stratex and MCD. We deliver our products and services through three reportable business segments: North America Microwave, International Microwave and Network Operations. Network Operations serves all markets worldwide. Revenue and other financial information regarding our business segments is set forth on pages 50-53 of this Annual Report on Form 10-K/A.

North America Microwave

The North America Microwave segment delivers microwave radio products and services to major national carriers and other cellular network operators, public safety operators and other government agencies, systems integrators, transportation and utility companies, and other private network operators within North America. A large part of our North American business is with the cellular backhaul and public safety segments.

Historically, and prior to the merger of Stratex and Harris MCD, the North America Microwave segment accounted for the most significant portion of our revenue. Because substantially all of Stratex s revenue was in international markets, our North America segment revenue declined to approximately 43% of our total revenue for fiscal 2007. We generally sell products and services directly to our customers. We use distributors to sell some products and services.

International Microwave

The International Microwave segment delivers microwave radio products and services to regional and national carriers and other cellular network operators, public safety operators, government and defense agencies, and other private network operators in every region outside of North America. Our wireless systems deliver regional and country-wide backbone in developing nations, where microwave radio installations provide 21st-century communications rapidly and economically. Rural communities, areas with rugged terrain and regions with extreme temperatures benefit from the ability to build an advanced, affordable communications infrastructure despite these challenges. A significant part of our international business is in supplying wireless segments in small-pocket, remote, rural and metropolitan areas.

High-capacity backhaul is another major opportunity for us. We see the increase in subscriber density and the forecasted growth and introduction of new bandwidth-hungry 3G services as major drivers for growth is this market.

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

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Network Operations

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

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

Industry Background

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

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

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

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

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

including last mile broadband connections, hotspots and cellular backhaul, and high-speed enterprise connectivity for business.

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

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

- Continuing fixed-line to mobile-line substitution;

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

- Continuing global mobile operator consolidation; and

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

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

Strategy

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

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

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

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

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

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

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

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

Solutions

Our solutions are designed to meet the various regional, operational and licensing needs of our wireless transmission customers. We provide turnkey microwave systems and service capabilities, offering complete civil engineering, network and systems engineering support and services a key competitive differentiator for Harris Stratex Networks in the microwave radio industry. Our solutions offer the following benefits:

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

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

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

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

Comprehensive network management. We offer a range of flexible network management solutions, from element management to enterprise-wide network management and service assurance all optimized to work with Harris Stratex Networks wireless transmission systems. NetBoss is also offered as a stand-alone solution

for a wide range of communications and information networking environments in virtually any industry.

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

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Product Portfolio

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

Licensed Point-to-Point Microwave Radios

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

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

Eclipse

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

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

TRuepoint

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

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

Constellation

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

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

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

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

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

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

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

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

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

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

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Sales, Marketing and Service

We believe that a direct and continuing relationship with service providers is a competitive advantage in attracting new customers and satisfying existing ones. As a result, we offer our products and services through our own direct sales, service and support organization, which allows us to closely monitor the needs of our customers. We have offices in Canada and the United States in North America; Mexico, Argentina and Brazil in Central and South America; Croatia, France, Germany, Poland, Portugal and the United Kingdom in Europe; Kenya, Nigeria and South Africa in Africa; the United Arab Emirates in the Middle East; and Bangladesh, China, India, Indonesia, Malaysia, New Zealand, the Philippines, Singapore and Thailand in the Asia-Pacific region. Our local offices provide us with a better understanding of our customers needs and enable us to respond to local issues and unique local requirements. We also have informal, and in some cases formal, relationships with OEM base station suppliers. Such relationships increase our ability to pursue a limited number of major contract awards each year. In addition, such relationships provide our customers with easier access to financing and integrated system providers with a variety of equipment and service capabilities. In selected countries, we also market our products through independent agents and distributors, as well as through system integrators.

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

Manufacturing

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

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

Backlog

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

Customers

Principal customers for our products and services include domestic and international wireless/mobile service providers, original equipment manufacturers, as well as private network users such as public safety agencies, government institutions, and utility, pipeline, railroad and other industrial enterprises that operate broadband wireless networks. We had revenue from a single external customer that exceeded 10% of our total revenue during fiscal 2006, but not during fiscal 2007 or fiscal 2005. During fiscal 2006, VMobile Nigeria accounted for 15.1% of total revenue.

Although we have a large customer base, during any given quarter, a small number of customers may account for a significant portion of our revenue. In certain circumstances, we sell our products to service providers through OEMs, which provide the service providers with access to financing and in some instances, protection from fluctuations in international currency exchange rates.

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

Non-U.S. Business

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

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

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

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

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

Competition

The wireless access, backhaul and interconnection business is a specialized segment of the wireless telecommunications industry and is extremely competitive. We operate in highly competitive markets that are sensitive to technological advances. Some of our competitors have more extensive engineering, manufacturing and marketing capabilities and greater financial, technical and personnel resources than we have. Some of our competitors may have greater name recognition, broader product lines (some including non-wireless telecommunications equipment), a larger installed base of products and longer-standing customer relationships. Although successful product and systems development is not necessarily dependent on substantial financial resources, many of our competitors are larger than us and can maintain higher levels of expenditures for research and development. In addition, a portion of our overall market is addressed by large mobile infrastructure providers, who bundle microwave

radios with other mobile network equipment, such as cellular base stations or switching systems, and offer a full range of services. This part of the market is generally not open to independent microwave suppliers such as us.

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

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

Research, Development and Engineering

We believe that our ability to enhance our current products, develop and introduce new products on a timely basis, maintain technological competitiveness and meet customer requirements is essential to our success. Accordingly, we allocate, and intend to continue to allocate, a significant portion of our resources to research and development efforts. Our research, development and engineering expenditures totaled approximately $39.4 million or 7.8% of revenue in fiscal 2007 and $28.8 million or 8.1% of revenue in fiscal 2006.

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

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

Patents and Other Intellectual Property

We consider our patents and other intellectual property rights, in the aggregate, to constitute an important asset. We own a portfolio of patents, trade secrets, know-how, confidential information, trademarks, copyrights and other intellectual property. We also license intellectual property to and from third parties. As of June 29, 2007, we held 93 U.S. patents and 70 international patents, and had 35 U.S. patent applications pending and 59 international patent applications pending. We do not consider our business to be materially dependent upon any single patent, license or other intellectual property right, or any group of related patents, licenses or other intellectual property rights. From time to time, we may engage in litigation to enforce our patents and other intellectual property or defend against claims of alleged infringement. Any of our patents, trade secrets, trademarks, copyrights and other proprietary rights could be challenged, invalidated or circumvented, or may not provide competitive advantages. Numerous trademarks used on or in connection with our products are also considered to be valuable assets.

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

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

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Environmental and Other Regulations

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

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

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

Raw Materials and Supplies

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

In some instances, we are dependent upon one or a few sources, either because of the specialized nature of a particular item or because of local content preference requirements pursuant to which we operate on a given project. Examples of sole or limited sourcing categories include metal fabrications and castings, for which we own the tooling and therefore limit our supplier relationships, and MMICs (a type of integrated circuit used in manufacturing microwave radios), which we procure at volume discount from a single source. Our supply chain plan includes mitigation plans for alternative manufacturing sources and identified alternate suppliers.

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

Employees

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

Web site Access to Harris Stratex Networks Reports; Available Information

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

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

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

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

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

Item 1A. *Risk Factors.*

As indicated above in this Annual Report on Form 10-K/A under Cautionary Statement Regarding Forward-Looking Statements, all statements other than statements of historical fact are statements that could be deemed forward-looking statements, including statements of, about, concerning or regarding: our plans, strategies and objectives for future operations; new products, services or developments; trends in revenue; future economic conditions, performance or outlook; the outcome of contingencies; the value of our contract awards; beliefs or expectations; and assumptions underlying any of the foregoing. These statements reflect the current beliefs, expectations, estimates, forecasts or intent of our management and are subject to and involve certain risks and uncertainties. Many of these risks and uncertainties are outside of our control and are difficult for us to forecast or mitigate. In addition to the risks described elsewhere in this Annual Report on Form 10-K/A and in certain of our other filings with the SEC, the following risks and uncertainties, among others, could cause our actual results to differ materially from those contemplated by us or by any forward-looking statement contained herein. Prospective and existing investors are strongly urged to carefully consider the various cautionary statements and risks set forth in this Annual Report on Form 10-K/A and our other public filings.

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

Risks Related to our Merger with Stratex

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

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

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the diversion of management s attention to integration matters;

difficulties in achieving expected cost savings associated with the transaction;

difficulties in the integration of operations and systems;

difficulties in the assimilation of employees;

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

challenges in keeping existing customers and obtaining new customers; and

challenges in attracting and retaining key personnel.

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

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

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

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

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

Risks Related to the Relationship between Harris and Us

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

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

As the only holder of our outstanding Class B common stock, Harris has the unilateral right to elect, remove and replace, at any time, a majority of our board of directors, so long as the members elected, removed or replaced by Harris satisfy the requirements agreed to by the Company and Harris as set forth in an investor agreement entered into at the time of the Stratex acquisition. More specifically, Harris has agreed that, so long as it holds a majority of our voting common stock, it will have the right to appoint five of our nine

directors and, until January 26, 2009, at least one of the Harris directors will meet the NASDAQ independence standards for audit committee members and at least one other Harris director will not be an employee of Harris or any of its subsidiaries (other than Harris Stratex or our subsidiaries). After January 26, 2009, Harris will be able to elect or replace all the Harris directors without regard to their relationship with Harris.

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

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

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

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

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

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

- indemnification and other matters arising under the Formation, Contribution and Merger Agreement or other agreements;
- intellectual property matters;
- employee recruiting and retention;
- competition for customers in the areas where Harris is permitted to do business under the non-competition agreement described below;
- sales or distributions by Harris of all or any portion of its ownership interest in us, which could be to one of our competitors;
- business combinations involving us; and
- business opportunities that may be attractive to both Harris and us.

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

We have an investor agreement and non-competition agreement with Harris. The investor agreement provides that Harris and its affiliates are only permitted to enter into a transaction with us if the transaction is approved by a

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

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

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

Harris owns more than 50% of the total voting power of our outstanding capital stock. Therefore, we are a controlled company under the NASDAQ rules. As a controlled company, we are entitled to utilize exemptions under the NASDAQ standards that free us from the obligation to comply with some governance requirements under the NASDAQ rules, including the following:

- a majority of our board of directors consists of independent directors;
- our director nominees must either be selected, or recommended for selection by the board of directors, either by:
  - a majority of the independent directors; or
  - a nominations committee comprised solely of independent directors; and
- the compensation of our officers must be determined, or recommended to the board of directors for determination, either by:
  - a majority of the independent directors; or
  - a compensation committee comprised solely of independent directors.

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

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

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

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

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

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

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

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

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

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

We have a non-competition agreement with Harris restricting its and its subsidiaries ability to compete with us for five years from January 26, 2007 in specified lines of business related to our current business operations. However, the non-competition agreement will not restrict Harris from competing in a limited number of specific areas in which we operate, such as the development, manufacture and sale of wireless systems for use by government entities and the purchase and resale of non-Harris-branded wireless systems. Following the five-year term, there will be no restriction on Harris ability to compete with us. If Harris elects to pursue opportunities in these areas or re-enters the business from which it is prohibited following the five-year term of the non-competition agreement, our ability to successfully operate and expand our business may be limited.

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

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

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

Other Risks

We may not be profitable.

As measured under U.S. generally accepted accounting principles (U.S. GAAP), we have incurred a net loss in each of the last five fiscal years. In fiscal 2007, we incurred a net loss of $21.8 million and in fiscal 2006, we incurred a net loss of $38.6 million. We can give no assurance that we will be consistently profitable, if at all.

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

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

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

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

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

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

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

Our average sales prices may decline in the future.

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

competition, could harm our business, financial condition and results of operations.

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

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

It is possible that a significant portion of our future product sales also could be concentrated in a limited number of customers. In addition, product sales to major customers have varied widely from period to period. The loss of any existing customer, a significant reduction in the level of sales to any existing customer, or our inability to gain additional customers could result in declines in our revenue or an inability to grow revenue. If these revenue declines occur or if we are unable to create revenue growth, our business, financial condition, and results of operations may be adversely affected.

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

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

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

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

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

- unexpected changes in regulatory requirements;
- fluctuations in international currency exchange rates;
- imposition of tariffs and other barriers and restrictions;
- management and operation of an enterprise spread over various countries;

the burden of complying with a variety of laws and regulations in various countries;

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

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

war and acts of terrorism;

natural disasters;

currency exchange controls; and

changes in export regulations.

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

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

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

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

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

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

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

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

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

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Our success will depend on new product introductions and acceptance.

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

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

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

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

The rapid changes and evolving industry standards that characterize the market for our products require frequent modification of products for us to be successful. These rapid changes could result in the accumulation of component inventory parts that become obsolete as modified products are introduced and adopted by customers. We have experienced significant inventory write-offs in recent years, and because of the rapid changes that characterize the market, we also may be forced to write down excess inventory from time to time. Moreover, these same factors may force us to significantly reduce prices for older products or extend more and longer credit terms to customers, which could negatively impact our cash and possibly result in higher bad debt expense. More generally, we cannot give assurances that we will be successful in matching our inventory purchases with anticipated shipment volumes. As a result, we may fail to control the amount of inventory on hand and may be forced to write off additional amounts. Such additional inventory write-offs, if required, would adversely impact our cash flows, financial condition and operating results.

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

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

- volume and timing of our product orders received and delivered during the quarter;
- our ability and the ability of our key suppliers to respond to changes on demand as needed;
- our suppliers inability to perform and deliver on time as a result of their financial condition, component shortages or other supply chain constraints;

our sales cycles can be lengthy;

continued market expansion through strategic alliances;

- continued timely rollout of new product functionality and features;
- increased competition resulting in downward pressures on the price of our products and services;
- unexpected delays in the schedule for shipments of existing products and new generations of the existing platforms;
- failure to realize expected cost improvement throughout our supply chain;
- order cancellations or postponements in product deliveries resulting in delayed revenue recognition;
- seasonality in the purchasing habits of our customers;
- war and acts of terrorism;
- natural disasters;
- the ability of our customers to obtain financing to enable their purchase of our products;
- fluctuations in international currency exchange rates;
- regulatory developments including denial of export and import licenses; and
- general economic conditions worldwide.

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

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

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

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

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

in compliance with respect to our future products could delay the introduction of such products.
In addition, we will be affected by the allocation and auction of the radio frequency spectrum by governmental authorities both in the U.S. and internationally. Such governmental authorities may not allocate sufficient radio frequency spectrum for use by our products or we may not be successful in obtaining regulatory approval for our products from these authorities. Historically, in many developed

countries, the unavailability of frequency spectrum has inhibited the growth of wireless telecommunications networks. In addition, to operate in a jurisdiction, we must obtain regulatory approval for our products. Each jurisdiction in which we market our products has its own regulations governing radio communications. Products that support emerging wireless telecommunications services can be marketed in a jurisdiction only if permitted by suitable frequency allocations, auctions and regulations. The process of establishing new regulations is complex and lengthy. If we are unable to obtain sufficient allocation of radio frequency spectrum by the appropriate governmental authority or obtain the proper regulatory approval for our products, our business, financial condition and results of operations may be harmed.

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

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

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

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

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

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

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports. Pursuant to Sections 302 and 404 of the Sarbanes-Oxley Act of 2002 (also known as the SOX Act), and beginning with our Annual Report on Form 10-K/A for the fiscal year ending June 27, 2008, our management will be required to certify to and report on, and its independent registered public accounting firm will be required to attest to, the effectiveness of our internal controls over financial reporting as of June 27, 2008. If we fail to maintain effective internal controls over financial reporting, our operating results could be misstated, our reputation may be harmed and the trading price of our stock could be negatively impacted. As described in Management s Discussion and Analysis of Financial Condition and Results of Operations included in Stratex s Annual Report on Form 10-K/A for the year ended March 31, 2006, as amended, Stratex determined there were two material weaknesses in its internal control over financial reporting as defined in standards established by the Public Company Accounting Oversight Board (PCAOB). In general, a material weakness (as defined in PCAOB Auditing Standard No. 2) is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement in the annual or interim financial statements will not be prevented or detected. In fiscal 2006, Stratex devoted significant

resources to remediate and improve its internal controls related to these material weaknesses. Stratex believes that these efforts have remediated the concerns that gave rise to the material weakness related to revenue recognition. However, due to the assessment of Stratex s internal controls over financial reporting as of March 31, 2006, Stratex had identified the continuation of a material weakness in the review of the financial statements of international operations and the period-end financial

close and reporting process for Stratex s consolidated operations. Historically, Harris has only been required to certify or report on or receive an attestation from its independent registered public accounting firm with respect to Harris, taken as a whole, and not MCD in particular. We are currently in the process of reviewing, documenting and testing our internal controls over financial reporting. We will continue reviewing our internal controls over the financial close and reporting process, and will implement additional controls as needed. However, we cannot be certain that our controls over our financial processes and reporting will be adequate in the future, and we may incur significant additional expenses in complying with these provisions of the SOX Act. Any failure to maintain effective internal controls over financial reporting could cause us to prepare inaccurate financial statements, subject us to a misappropriation of assets or cause us to fail to meet our SEC reporting obligations on a timely basis, which could materially and adversely affect the trading price of our Class A common stock.

As previously announced on July 30, 2008, we concluded that our consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 would be restated for the correction of errors contained in those consolidated financial statements. In conjunction with the identification of these errors, we also identified certain weaknesses in our internal control structure that led to these errors. Refer to Item 9A in Part II of this Form 10-K/A where these internal control deficiencies are further discussed.

Item 1B. ***Unresolved Staff Comments.***

None.

Item 2. ***Properties.***

As of June 29, 2007, we conducted operations in 39 facilities in the U.S., Canada, Europe, Central America, South America, Africa and Asia. Additionally, in the first quarter of fiscal 2008, we will begin operations in two additional leased facilities. Our principal executive offices are located at leased facilities in Morrisville, North Carolina. There are no material encumbrances on any of our facilities. Remaining initial lease periods extend to 2012, and one lease may be extended to 2013.

As of June 29, 2007, the locations and approximate floor space of our principal offices and facilities in productive use (including the two additional leased facilities mentioned above) were as follows:

Location	Major Activities	Owned (square feet)	Leased (square feet)
San Antonio, Texas	Office, manufacturing	130,000	
Wellington, New Zealand	Office, R&D center	58,000	
Lanarkshire, Scotland	Office, repair center	33,000	
San Jose, California (three facilities)	Offices, R&D center, warehouse		98,000
Montreal, Canada	Office, R&D center		79,000
Redwood Shores, California	Office		75,000
Morrisville, North Carolina	Headquarters, R&D center		60,000
People s Republic of China (three facilities)	Offices, manufacturing		42,000
Redwood City, California	Office		18,000
Paris, France (two facilities)	Offices		15,000
Republic of Singapore	Office		13,000
Mexico City, Mexico (two facilities)	Offices, warehouse		12,000
23 other facilities	Offices		67,000
Totals		221,000	479,000

In 2007, in connection with the acquisition of Stratex, we ceased operations at, and subsequently vacated, a leased facility in Seattle, Washington, and two leased facilities in San Jose and Milpitas, California. These facilities comprise approximately 63,000 square feet. Additionally, we ceased most of our operations at, and mostly vacated, a fourth

leased facility in San Jose. This facility comprises approximately 60,000 square feet, of which we have retained the use of approximately 10,000 square feet. We have subleased the remaining 50,000 square feet of this facility. As the lessee, we have ongoing lease commitments, which extend into fiscal year 2011, for these four facilities.

We maintain our facilities in good operating condition, and believe that they are suitable and adequate for our current and projected needs. We continuously review our anticipated requirements for facilities and may, from time to time, acquire additional facilities, expand existing facilities, or dispose of existing facilities or parts thereof, as we deem necessary.

For more information about our lease obligations, see Note T Lease Commitments and Note O Restructuring Activities of Notes to Consolidated Financial Statements, which are included in Part II, Item 8 of this Annual Report on Form 10-K/A.

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Item 3. ***Legal Proceedings.***

From time to time, as a normal incident of the nature and kind of businesses in which we are engaged, various claims or charges are asserted and litigation commenced against us arising from or related to: personal injury, patents, trademarks, trade secrets or other intellectual property; labor and employee disputes; commercial or contractual disputes; the sale or use of products containing restricted or hazardous materials; breach of warranty; or environmental matters. Claimed amounts 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 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 are generally expensed when incurred. While it is not feasible to predict the outcome of these matters with certainty, and some lawsuits, claims or proceedings may be disposed of or decided unfavorably to us, based upon available information, in the opinion of management, settlements and final judgments, if any, which are considered probable of being rendered against us in litigation or arbitration in existence at June 29, 2007 are reserved against, covered by insurance or would not have a material adverse effect on our financial position, results of operations or cash flows.

Item 4. ***Submissions of Matters to a Vote of Security Holders.***

No matters were submitted by us to a vote of our security holders during the fourth quarter of fiscal 2007.

PART II.

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.***

Market Information and Price Range of Common Stock

Our common stock, with a par value of $0.01 per share, is listed and primarily traded on the NASDAQ Global Market (NASDAQ), under the ticker symbol HSTX. There was no established trading market for the shares of our Class A or Class B common stock prior to January 29, 2007. Shares of our Class B common stock are not expected to be listed for trading on any exchange or quotation system at any time in the foreseeable future.

According to the records of our transfer agent, as of August 14, 2007, there were approximately 230 holders of record of our Class A common stock. The following table sets forth the high and low reported sale prices for a share of our Class A common stock on NASDAQ Global Market system for the periods indicated during our fiscal year ended June 29, 2007:

	Common Stock	
	High	**Low**
Fiscal Year Ended June 29, 2007		
First Quarter	None	None
Second Quarter	None	None
Third Quarter (beginning January 30, 2007)	$21.25	$18.23
Fourth Quarter	$20.07	$14.85

On August 14, 2007, the last sale price of our common stock as reported in the NASDAQ Global Market system was $19.85 per share.

Dividend Policy

We have not paid cash dividends on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain any earnings for use in our business. In addition, the covenants of our outstanding $50 million credit facility restrict us from paying dividends or making other distributions to our shareholders under certain circumstances. We also may enter into other credit facilities or debt financing arrangements that further limit our ability to pay dividends or make other distributions.

Sales of Unregistered Securities

During fiscal 2007, we did not issue or sell any unregistered securities.

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Issuer Repurchases of Equity Securities

During fiscal 2007, we did not repurchase any equity securities.

Equity Compensation Plans

The equity compensation plan information required to be provided in this Annual Report on Form 10-K/A is incorporated by reference to the section of our Proxy Statement for our Annual Meeting of Shareholders to be held on November 14, 2007, entitled Executive Compensation to be filed with the SEC.

Performance Graph

The following graph compares the cumulative total return on our common stock with the cumulative total return of the Total Return Index for The NASDAQ Stock Market (U.S. Companies) and the NASDAQ Telecommunications Index for the five-month period commencing January 29, 2007. The stock price performance shown on the graph below is not necessarily indicative of future price performance.

COMPARISON OF 5 MONTH CUMULATIVE TOTAL RETURN*

Among Harris Stratex Networks, Inc., The NASDAQ Composite Index

And The NASDAQ Telecommunications Index

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	1/29/07	1/31/07	2/28/07	3/30/07	4/30/07	5/31/07	6/29/07
Harris Stratex Networks, Inc.	**100.00**	**109.90**	**102.00**	**95.95**	**99.70**	**85.50**	**89.90**
NASDAQ Composite	**100.00**	**101.91**	**100.03**	**100.68**	**104.46**	**108.06**	**108.11**
NASDAQ Telecommunications	**100.00**	**99.96**	**99.42**	**99.98**	**103.53**	**106.34**	**110.08**

* Assumes (i) $100 invested on January 29, 2007 in Harris Stratex Networks, Inc. Common Stock, the Total Return Index for The NASDAQ Composite Market (U.S. companies) and the NASDAQ Telecommunications Index; and (ii) immediate reinvestment of all dividends.

Item 6. ***Selected Financial Data (Restated).***

The following table summarizes our selected historical financial information for each of the last five fiscal years. The selected financial information as of June 29, 2007; June 30, 2006; and July 1, 2005 and for the fiscal years ended June 29, 2007; June 30, 2006; July 1, 2005; and July 2, 2004 has been derived from our consolidated financial statements, for which data presented for fiscal years 2007, 2006 and 2005 are included elsewhere in this Annual Report on Form 10-K/A. This table should be read in conjunction with our other financial information, including Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated) which discusses our restatement of previously issued financial statements and the Consolidated Financial Statements and Notes, included elsewhere in this Annual Report on Form 10-K/A.

	Fiscal Years Ended				
	June 29, 2007(1) (Restated)	**June 30, 2006(2) (Restated)**	**July 1, 2005 (Restated)**	**July 2, 2004(3) (Restated)**	**June 27, 2003(4)**
			(In millions)		
Results of Operations:					
Revenue from product sales and services	$ 507.9	$ 357.5	$ 310.4	$ 329.8	$ 297.5
Cost of product sales and services	(361.2)	(275.2)	(223.5)	(246.0)	(221.7)
Net loss	(21.8)	(38.6)	(6.8)	(22.2)	(35.2)
Basic and diluted net loss per common share	(0.88)	N/A	N/A	N/A	N/A

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	As of				
	June 29, 2007(1) (Restated)	June 30, 2006(2) (Restated)	July 1, 2005 (Restated)	July 2, 2004(3) (Restated)	June 27, 2003(4)
	(In millions)				
Balance Sheet Data:					
Total assets	$1,025.5	$344.9	$358.1	$342.3	$398.3
Long-term liabilities	65.0	12.6	14.2	15.0	11.9
Total net assets	746.4	244.3	275.4	244.6	272.4

(1) The merger with Stratex and the contribution transaction occurred on January 26, 2007. Results of operations for the business acquired in the merger were included in fiscal 2007 from that date only. Thus, operating results in fiscal 2007 are not directly comparable to operating results for the prior fiscal years. In addition, during fiscal 2007, we recorded $15.3 million in acquired in-process research and development expenses, $9.1 million in amortization of developed technology, tradenames, customer relationships, contract backlog

and non-compete
agreements,
$8.6 million in
amortization of
fair value
adjustments for
inventory and
fixed assets
related to the
acquisition of
Stratex,
$4.2 million in
restructuring
charges and
$3.6 million in
merger-related
integration
charges to our
International
Microwave
segment. In
addition, we
recorded
$1.4 million in
amortization of
developed
technology,
tradenames,
customer
relationships,
contract backlog
and non-compete
agreements,
$0.4 million in
amortization of
fair value
adjustments for
inventory and
fixed assets
related to the
acquisition of
Stratex,
$5.1 million in
restructuring
charges and
$2.7 million in
merger related
integration
charges to our
North America
microwave

segment.

(2) Fiscal 2006 results include a $39.6 million after-tax charge related to inventory write-downs and other charges associated with product discontinuances, as well as the planned shutdown of manufacturing activities at our plant in Montreal, Canada.

(3) Fiscal 2004 results include a $7.3 million charge related to cost-reduction measures and fixed asset write-downs.

(4) Fiscal 2003 results include an $8.6 million write-down of inventory related to the exit from unprofitable products and the shut-down of our manufacturing plant in Brazil, as well as an $8.3 million charge related to cost-reduction measures.

Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations (Restated).***

Restatement of Previously Issued Financial Statements

As previously announced on July 30, 2008, we concluded that our consolidated financial statements for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005 would be restated for the correction of errors contained in

those consolidated financial statements. The effect of these restatement items decreased shareholders equity cumulatively by $11.6 million and $7.7 million as of June 29, 2007 and June 30, 2006, respectively. In addition, the effect of these restatement items reduced shareholders equity by $4.9 million and $1.9 million as of July 1, 2005 and July 2, 2004, respectively. Division equity, which was reclassified to additional paid in capital at the merger date of January 26, 2007, decreased from the amount previously reported by $8.3 million. Previously reported net loss was increased by $3.9 million, $2.8 million, $3.0 million and $1.9 million for the fiscal years ended June 29, 2007, June 30, 2006, July 1, 2005 and July 2, 2004 respectively. The restatement had no impact on our net cash flows from operations, financing activities or investing activities. Details of the nature of the corrections are as follows:

Inventory

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

During fiscal year 2008, we determined that this review had not been performed in a manner sufficient to identify significant project cost variances remaining in certain inventory accounts, and that the resulting errors impacted prior quarters and prior years. To correct

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this error, we decreased work in process inventory compared to amounts previously recorded by $9.6 million and $5.0 million as of June 29, 2007 and June 30, 2006, respectively, and increased cost of external product sales and services by $4.6 million, $2.1 million and $2.4 million for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005, respectively. A $0.5 million increase in the cost of external product sales and services was recorded in fiscal years prior to 2005.

Inventory and Intercompany Account Reconciliations

During the course of the year end close for the fiscal year ending June 27, 2008, we determined that certain account reconciliation adjustments recorded in the fourth quarter of fiscal 2008, which related primarily to inventory and intercompany accounts receivable accounts, should have been recorded in prior quarters or prior years. We determined that certain manual controls had not been performed for certain periods, resulting in accounting errors. More specifically, we identified errors in the work in process inventory balances resulting from incorrect account reconciliation processes. To correct this error, we decreased work in process inventory compared with amounts previously recorded by $1.9 million and $0.5 million as of June 29, 2007 and June 30, 2006, respectively, and increased cost of external product sales by $1.4 million, $0.6 million and $0.3 million for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005, respectively. A $0.4 million decrease in the cost of external product sales was recorded in fiscal years prior to 2005.

We also identified errors in accounts receivable balances as a result of control deficiencies in the recording and elimination of intercompany transactions. To correct this error, we decreased accounts receivable by $2.2 million at June 29, 2007 and June 30, 2006, compared with amounts previously recorded and increased selling and administrative expenses by $0.1 million and $0.3 million for the fiscal years ended June 30, 2006 and July 1, 2005, respectively. A $1.8 million increase in selling and administrative expenses was recorded in fiscal years prior to 2005.

Warranty Liability

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

Deferred Tax Liability

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

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The following tables present the impact of the restatement adjustments on our previously reported consolidated balance sheets as of June 29, 2007 and June 30, 2006, as well as the impact on our previously reported consolidated statements of operations and cash flows for the fiscal years ended June 29, 2007, June 30, 2006 and July 1, 2005.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Fiscal Year Ended June 29, 2007		
	As Previously Reported	Adjustments	As Restated
	(In millions, except per share amounts)		
Net revenues from product sales and services	$ 507.9	$	$ 507.9
Cost of product sales and services:			
Cost of external product sales	(281.2)	(5.1)	(286.3)
Cost of product sales with Harris Corporation	(1.3)		(1.3)
Total cost of product sales	(282.5)	(5.1)	(287.6)
Cost of services	(64.3)	(0.9)	(65.2)
Cost of sales billed from Harris Corporation	(5.4)		(5.4)
Amortization of purchased technology	(3.0)		(3.0)
Total cost of product sales and services	(355.2)	(6.0)	(361.2)
Gross margin	152.7	(6.0)	146.7
Research and development expenses	(39.4)		(39.4)
Selling and administrative expenses	(92.1)		(92.1)
Selling and administrative expenses with Harris Corporation	(6.8)		(6.8)
Total research, development, selling and administrative expenses	(138.3)		(138.3)
Acquired in-process research and development	(15.3)		(15.3)
Amortization of identifiable intangible assets	(7.5)		(7.5)
Restructuring charges	(9.3)		(9.3)
Corporate allocations expense from Harris Corporation	(3.7)		(3.7)
Operating loss	(21.4)	(6.0)	(27.4)
Interest income	1.8		1.8
Interest expense	(2.3)		(2.3)
Loss before provision for income taxes	(21.9)	(6.0)	(27.9)
Benefit for income taxes	4.0	2.1	6.1
Net loss	$ (17.9)	$ (3.9)	$ (21.8)
Basic and diluted net loss per common share	$ (0.72)	$ (0.16)	$ (0.88)
Basic and diluted weighted average shares outstanding	24.7		24.7

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	For the Fiscal Year Ended June 30, 2006		
	As Previously Reported	Adjustments	As Restated
	(In millions, except per share amounts)		
Net revenues from product sales and services	$ 357.5	$	$ 357.5
Cost of product sales and services:			
Cost of external product sales	(222.7)	(2.4)	(225.1)
Cost of product sales with Harris Corporation	(7.4)		(7.4)
Total cost of product sales	(230.1)	(2.4)	(232.5)
Cost of services	(37.1)	(0.3)	(37.4)
Cost of sales billed from Harris Corporation	(5.3)		(5.3)
Amortization of purchased technology			
Total cost of product sales and services	(272.5)	(2.7)	(275.2)
Gross margin	85.0	(2.7)	82.3
Research and development expenses	(28.8)		(28.8)
Selling and administrative expenses	(62.9)	(0.1)	(63.0)
Selling and administrative expenses with Harris Corporation	(5.6)		(5.6)
Total research, development, selling and administrative expenses	(97.3)	(0.1)	(97.4)
Acquired in-process research and development			
Amortization of identifiable intangible assets			
Restructuring charges	(3.8)		(3.8)
Corporate allocations expense from Harris Corporation	(12.4)		(12.4)
Operating loss	(28.5)	(2.8)	(31.3)
Interest income	0.5		0.5
Interest expense	(1.0)		(1.0)
Loss before provision for income taxes	(29.0)	(2.8)	(31.8)
Provision for income taxes	(6.8)		(6.8)
Net loss	$ (35.8)	$ (2.8)	$ (38.6)
Basic and diluted net loss per common share	N/A		N/A
Basic and diluted weighted average shares outstanding	N/A		N/A

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	For the Fiscal Year Ended July 1, 2005		
	As Previously Reported	Adjustments	As Restated
	(In millions, except per share amounts)		
Net revenues from product sales and services	$ 310.4	$	$ 310.4
Cost of product sales and services:			
Cost of external product sales	(181.5)	(1.7)	(183.2)
Cost of product sales with Harris Corporation	(3.7)		(3.7)
Total cost of product sales	(185.2)	(1.7)	(186.9)
Cost of services	(31.3)	(1.0)	(32.3)
Cost of sales billed from Harris Corporation	(4.3)		(4.3)
Amortization of purchased technology			
Total cost of product sales and services	(220.8)	(2.7)	(223.5)
Gross margin	89.6	(2.7)	86.9
Research and development expenses	(28.0)		(28.0)
Selling and administrative expenses	(52.8)	(0.3)	(53.1)
Selling and administrative expenses with Harris Corporation	(6.0)		(6.0)
Total research, development, selling and administrative expenses	(86.8)	(0.3)	(87.1)
Acquired in-process research and development			
Amortization of identifiable intangible assets			
Restructuring charges			
Corporate allocations expense from Harris Corporation	(6.2)		(6.2)
Operating loss	(3.4)	(3.0)	(6.4)
Interest income	0.9		0.9
Interest expense	(1.0)		(1.0)
Loss before provision for income taxes	(3.5)	(3.0)	(6.5)
Provision for income taxes	(0.3)		(0.3)
Net loss	$ (3.8)	$ (3.0)	$ (6.8)
Basic and diluted net loss per common share	N/A		N/A
Basic and diluted weighted average shares outstanding	N/A		N/A

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CONDENSED CONSOLIDATED BALANCE SHEETS

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

Total liabilities and shareholders equity	$ 1,038.1	$ (12.6)	$ 1,025.5

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	As of June 30, 2006				
	As Previously Reported		Adjustments		As Restated
	(In millions)				
ASSETS					
Current Assets					
Cash and cash equivalents	$ 13.8	$		$	13.8
Short-term investments and available for sale securities					
Receivables	123.9		(2.2)		121.7
Unbilled costs	25.5				25.5
Inventories	71.9		(5.5)		66.4
Deferred income taxes					
Other current assets	6.7				6.7
Total current assets	241.8		(7.7)		234.1
Long-Term Assets					
Property, plant and equipment	52.2				52.2
Goodwill	28.3				28.3
Identifiable intangible assets	6.4				6.4
Other long-term assets	23.9				23.9
	110.8				110.8
Total assets	$ 352.6	$	(7.7)	$	344.9
LIABILITIES AND SHAREHOLDERS EQUITY					
Current Liabilities					
Short-term debt	$ 0.2	$		$	0.2
Current portion of long-term debt					
Accounts payable	42.1				42.1
Compensation and benefits	17.4				17.4
Other accrued items	16.9				16.9
Advance payments and unearned income	9.2				9.2
Income taxes payable					
Restructuring liabilities	2.2				2.2
Current portion of long-term capital lease obligation to Harris Corporation					
Due to Harris Corporation					
Total current liabilities	88.0				88.0
Long-term liabilities	12.6				12.6
Total liabilities	100.6				100.6
Total shareholders equity	252.0		(7.7)		244.3
Total liabilities and shareholders equity	$ 352.6	$	(7.7)	$	344.9

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Fiscal Year Ended June 29, 2007		
	As Previously Reported	Adjustments	As Restated
		(In millions)	
Net loss	$ (17.9)	$ (3.9)	$ (21.8)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of identifiable intangible assets acquired in the Stratex acquisition	25.8		25.8
Other noncash charges related to the Stratex acquisition	7.9		7.9
Depreciation and amortization of property, plant and equipment and capitalized software	14.5		14.5
Noncash stock-based compensation expense	3.9		3.9
Write-down of inventory			
Decrease in fair value of warrants	(0.6)		(0.6)
Gain on sale of land and building			
Deferred income tax (benefit) expense	(10.9)	(2.1)	(13.0)
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables	(23.8)		(23.8)
Unbilled costs and inventories	(39.1)	6.0	(33.1)
Accounts payable and accrued expenses	10.1		10.1
Advance payments and unearned income	12.8		12.8
Due to Harris Corporation	4.6		4.6
Other	(0.4)		(0.4)
Net cash used in operating activities	(13.1)		(13.1)
Net cash provided by investing activities	14.3		14.3
Net cash provided by financing activities	57.3		57.3
Effect of exchange rate changes on cash and cash equivalents	(3.1)		(3.1)
Net increase in cash and cash equivalents	55.4		55.4
Cash and cash equivalents, beginning of year	13.8		13.8
Cash and cash equivalents, end of year	$ 69.2	$	$ 69.2

	For the Fiscal Year Ended June 30, 2006		
	As Previously Reported	Adjustments	As Restated

		(In millions)	
Net loss	$ (35.8)	$ (2.8)	$ (38.6)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Amortization of identifiable intangible assets acquired in the Stratex acquisition			
Other noncash charges related to the Stratex acquisition			
Depreciation and amortization of property, plant and equipment and capitalized software	15.7		15.7
Noncash stock-based compensation expense			
Write-down of inventory	38.5		38.5
Decrease in fair value of warrants			
Gain on sale of land and building	(1.8)		(1.8)
Deferred income tax (benefit) expense	5.7		5.7
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables	(5.1)	0.1	(5.0)
Unbilled costs and inventories	(27.3)	2.7	(24.6)
Accounts payable and accrued expenses	18.0		18.0
Advance payments and unearned income	2.4		2.4
Due to Harris Corporation	(1.5)		(1.5)
Other	10.7		10.7
Net cash provided by operating activities	19.5		19.5
Net cash used in investing activities	(8.2)		(8.2)
Net cash used in financing activities	(5.8)		(5.8)
Effect of exchange rate changes on cash and cash equivalents	0.5		0.5
Net increase in cash and cash equivalents	6.0		6.0
Cash and cash equivalents, beginning of year	7.8		7.8
Cash and cash equivalents, end of year	$ 13.8	$	$ 13.8

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	For the Fiscal Year Ended July 1, 2005		
	As Previously Reported	Adjustments	As Restated
		(In millions)	
Net loss	$ (3.8)	$ (3.0)	$ (6.8)
Adjustments to reconcile net loss to net cash used in operating activities:			
Amortization of identifiable intangible assets acquired in the Stratex acquisition			
Other noncash charges related to the Stratex acquisition			
Depreciation and amortization of property, plant and equipment and capitalized software	14.6		14.6
Noncash stock-based compensation expense			
Write-down of inventory			
Decrease in fair value of warrants			
Gain on sale of land and building			
Deferred income tax (benefit) expense			
Changes in operating assets and liabilities, net of effects from acquisition:			
Receivables	0.2	0.3	0.5
Unbilled costs and inventories	(16.0)	2.7	(13.3)
Accounts payable and accrued expenses	(4.5)		(4.5)
Advance payments and unearned income	(5.0)		(5.0)
Due to Harris Corporation	(0.8)		(0.8)
Other	11.1		11.1
Net cash used in operating activities	(4.2)		(4.2)
Net cash used in investing activities	(19.4)		(19.4)
Net cash provided by financing activities	24.9		24.9
Effect of exchange rate changes on cash and cash equivalents	1.2		1.2
Net increase in cash and cash equivalents	2.5		2.5
Cash and cash equivalents, beginning of year	5.3		5.3
Cash and cash equivalents, end of year	$ 7.8	$	$ 7.8

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QUARTERLY CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

Fiscal 2007

	For the Quarter Ended September 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	$93.6	$	$ 93.6
Gross margin	30.8	0.7	31.5
Income from operations	5.3	0.7	6.0
Net income	4.8	0.7	5.5
Basic and diluted net income per common share	N/A		N/A
Market price range common stock			
High	N/A		N/A
Low	N/A		N/A
Quarter-end Close	N/A		N/A

	For the Quarter Ended December 29, 2006		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	$101.2	$	$101.2
Gross margin	34.8	(1.3)	33.5
Income from operations	6.2	(1.3)	4.9
Net income	5.8	(1.3)	4.5
Basic and diluted net income per common share	N/A		N/A
Market price range common stock			
High	N/A		N/A
Low	N/A		N/A
Quarter-end Close	N/A		N/A

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

Market price range common stock		
High	21.3	21.3
Low	18.2	18.2
Quarter-end Close	19.2	19.2

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	For the Quarter Ended June 29, 2007		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	$174.1	$	$174.1
Gross margin	51.1	(3.1)	48.0
Loss from operations	(10.2)	(3.1)	(13.3)
Net loss	(5.3)	(1.9)	(7.2)
Basic and diluted net loss per common share	(0.09)	(0.03)	(0.12)
Market price range common stock			
High	20.1		20.1
Low	14.9		14.9
Quarter-end Close	18.0		18.0

Fiscal 2006

	For the Quarter Ended September 30, 2005		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	$84.7	$	$ 84.7
Gross margin	26.8	(0.1)	26.7
Income from operations	6.1	(0.1)	6.0
Net income	5.7	(0.1)	5.6
Basic and diluted net income per common share	N/A		N/A

	For the Quarter Ended December 30, 2005		
	As Previously Reported	Adjustments (In millions)	As Restated
Revenue	$ 88.7	$	$ 88.7
Gross deficit	(6.2)	(0.2)	(6.4)
Loss from operations	(31.7)	(0.3)	(32.0)
Net loss	(37.4)	(0.3)	(37.7)
Basic and diluted net loss per common share	N/A		N/A

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	For the Quarter Ended March 31, 2006		
	As Previously Reported	Adjustments	As Restated
		(In millions)	
Revenue	$73.6	$	$ 73.6
Gross margin	25.1	(1.1)	24.0
Loss from operations	(6.1)	(1.0)	(7.1)
Net loss	(6.9)	(1.0)	(7.9)
Basic and diluted net loss per common share	N/A		N/A

	For the Quarter Ended June 30, 2006		
	As Previously Reported	Adjustments	As Restated
		(In millions)	
Revenue	$110.5	$	$110.5
Gross margin	39.2	(1.2)	38.0
Income from operations	3.3	(1.5)	1.8
Net income	2.8	(1.4)	1.4
Basic and diluted net income per common share	N/A		N/A

Acquisition of Stratex Networks, Inc. and Combination with MCD

On January 26, 2007, we completed our merger (the Stratex acquisition) with Stratex Networks, Inc. (Stratex) pursuant to a Formation, Contribution and Merger Agreement among Harris Corporation, Stratex, and Stratex Merger Corp., as amended and restated on December 18, 2006 and amended by letter agreement on January 26, 2007. In the transaction, Stratex Merger Corp., a wholly-owned subsidiary of the Company, merged with and into Stratex with Stratex as the surviving corporation (renamed as Harris Stratex Networks Operating Corporation). Concurrently with the merger of Stratex and Stratex Merger Corp. (the merger), Harris Corporation contributed the Microwave Communications Division (MCD), along with $32.1 million in cash (comprised of $26.9 million contributed on January 26, 2007 and $5.2 million held by the Company s foreign operating subsidiaries on January 26, 2007) to the Company and the Company assumed the liabilities (with certain exceptions) of MCD (the contribution transaction). Pursuant to the merger, each share of Stratex common stock was converted into one-fourth of a share of our Class A common stock, and a total of 24,782,153 shares of our Class A common stock were issued to the former holders of Stratex common stock. In the contribution transaction, Harris Corporation contributed the assets of MCD, along with $32.1 million in cash, and in exchange, we assumed certain liabilities of Harris Corporation related to MCD and issued 32,913,377 shares of our Class B common stock to Harris Corporation. As a result of these transactions, Harris Corporation owned approximately 57% and the former Stratex shareholders owned approximately 43% of our total outstanding stock immediately following the closing.

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

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

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

Overview

The following Management s Discussion and Analysis of Financial Condition and Results of Operations, which is sometimes referred to in this Annual Report on Form 10-K/A as the MD&A, is provided as a supplement to, should be read in conjunction with, and is qualified in its entirety by reference to our consolidated financial statements and related notes beginning on page 65 of this report.

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

Business Considerations a general description of our businesses; the drivers of these businesses and our strategy for achieving value and key indicators that are relevant to us in the microwave communications industry.

Operations Review an analysis of our consolidated results of operations and of the results in each of its three operating segments, to the extent the operating segment results are helpful to gaining an understanding of our business as a whole.

Liquidity, Capital Resources and Financial Strategies an analysis of cash flows, contractual obligations, off-balance sheet arrangements, commercial commitments, financial risk management, impact of foreign exchange and impact of inflation.

Critical Accounting Policies and Estimates a discussion of accounting policies and estimates that require the most judgment and a discussion of accounting pronouncements that have been issued but not yet implemented by us and their potential impact.

Business Considerations

General

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

flow are developed from the sale of these products, systems, software and services. We generally sell directly to the end customer. However, to extend our global footprint and maximize our penetration in certain markets, we sometimes sell through agents, resellers and/or distributors, particularly in international markets.

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

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Drivers of Harris Stratex Businesses and Strategy for Achieving Value

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

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

Continuing Profitable Revenue Growth in All Segments

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

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

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

Focusing on Operating Efficiencies and Cost Reductions

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

Maintaining an Efficient Capital Structure

Our capital structure is intended to optimize our cost of capital. We believe a strong capital position, access to key financial markets, ability to raise funds at a low effective cost and overall low cost of borrowing provide a competitive advantage. We had $89.6 million in cash, cash equivalents, short-term investments and available for sale securities as of June 29, 2007.

Key Indicators

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

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Fiscal 2007 Compared to Fiscal 2006 and Fiscal 2006 Compared to Fiscal 2005
Revenue and Net Loss (Restated)

	2007 (Restated)	2006 (Restated)	2007/2006 % Increase/ (Decrease)	2005 (Restated)	2006/2005 % Increase/ (Decrease)
	(In millions, except percentages)				
Revenue	$507.9	$357.5	42.1%	$310.4	15.2%
Net loss	$ (21.8)	$ (38.6)	(43.5)%	$ (6.8)	N/M
% of revenue	(4.3)%	(10.8)%		(2.2)%	

N/M Not meaningful

Fiscal 2007 Compared with Fiscal 2006 (Restated)

Our revenue for fiscal 2007 was $507.9 million, an increase of $150.4 million or 42.1% compared to fiscal 2006, and includes $123.7 million of revenue from the products and services acquired in the Stratex acquisition for the five-month period following January 26, 2007. The remainder of the revenue increase, or $26.7 million, resulted from growth in the North America Microwave, and Network Operations segments, offset by a decline in international microwave revenue. The increased demand for our products in North America during fiscal 2007 came from both wireless service providers and private networks as mobile operators began to substitute microwave wireless capabilities for leased lines to reduce network operating costs, expand their geographic footprint and increase capacity to handle high-bandwidth voice, data, and video services. Private network demand also increased during fiscal 2007 compared to fiscal 2006, driven by the need for higher bandwidth and by the availability of federal grant dollars to improve interoperability of public safety networks. The decline in international microwave revenue was driven by lower revenue in Asia-Pac, EMER and Africa, due to the timing of project awards.

Our fiscal 2007 net loss was $21.8 million compared to a net loss of $38.6 million in fiscal 2006. The fiscal 2007 net loss reflected the following charges related to the acquisition of Stratex: $15.3 million write-off of acquired in-process research and development; $6.3 million of charges related primarily to severance and integration activities undertaken in connection with the merger; $9.0 million amortization of a portion of the fair value adjustments related to inventory and fixed assets; and $10.5 million of amortization related to developed technology, trade names, customer relationships, contract backlog and non-competition agreements. These charges were classified in cost of product sales and services or selling and administrative expenses depending on the nature of the charge.

Additionally, we recorded $9.3 million of restructuring charges in connection with plans to improve operating efficiencies, and to create synergies through the consolidation of facilities. We began implementation of a plan in February 2007 to scale down operations in Montreal, Canada and, to a lesser extent, in the U.S. In the initial phase of this plan, notices were sent to approximately 200 employees in Montreal that their employment would be terminated between March 30, 2007 and December 31, 2007. We believe that the overall cost to implement this plan will be approximately $6.2 million for Montreal (consisting primarily of severance and other benefits) and approximately $0.7 million in the U.S. (consisting primarily of severance and other benefits). We began implementation of a plan in June 2007 to scale down operations in Paris, France and, to a lesser extent, Mexico City, Mexico. Notices were sent to 12 employees in Paris and 3 employees in Mexico City that their employment would be terminated by December 31, 2007. We believe the overall cost to implement these plans will be approximately $4.2 million in total (consisting primarily of severance and other benefits), with the majority of the costs relating to the reduction in force in France. These plans are expected to be fully implemented by December 31, 2007.

These charges were partially offset by income generated from the operations acquired from Stratex, and by the margin generated by the increased revenue from our North America Microwave segment. In fiscal 2007 we recorded a net tax benefit of $6.1 million, compared to a tax provision of $6.8 million in fiscal 2006. The tax benefit recorded in fiscal 2007 resulted primarily from foreign tax credits earned by our international operations during the fiscal year.

Our fiscal 2006 net loss was negatively impacted by $34.9 million of inventory write-downs related to product discontinuances, the related increase in income tax valuation allowance of $5.7 million, $5.4 million of corporate allocation expense related to the settlement of arbitration proceedings in connection with our former analog base station business and related services, and $3.8 million in restructuring costs related to the relocation of our Canadian manufacturing activities to our San Antonio, Texas manufacturing facility.

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Fiscal 2006 Compared with Fiscal 2005 (Restated)

Our revenue for fiscal 2006 was $357.5 million, an increase of $47.1 million or 15.2% compared to fiscal 2005. Net loss for fiscal 2006 was $38.6 million compared to fiscal 2005 net loss of $6.8 million. Fiscal 2006 revenue increased in both the North America Microwave and International Microwave segments by 5.2% and 35.4% from June 2005, respectively. The increase was partially offset by a decrease in revenue in the Network Operations segment of 26.9% from June 2005.

Our net loss of $38.6 million in fiscal 2006 included the impact of $39.6 million in charges related to the International microwave segment associated with product discontinuances and the shutdown of manufacturing activities in Montreal, Canada. Corporate allocations expense from Harris increased from $6.2 million in fiscal 2005 to $12.4 million in fiscal 2006. Corporate allocations expense in fiscal 2006 included the impact of a $5.4 million corporate allocation related to the settlement of arbitration proceedings in connection with our former analog base station business and related services.

Gross Margin (Restated)

	2007 (Restated)	2006 (Restated)	2007/2006 % Increase/ (Decrease)	2005 (Restated)	2006/2005 % Increase/ (Decrease)
	(In millions, except percentages)				
Revenue	$507.9	$357.5	42.1%	$310.4	15.2%
Cost of product sales and services	$361.2	$275.2	31.3%	$223.5	23.1%
Gross margin	$146.7	$ 82.3	78.3%	$ 86.9	(5.3)%
% of revenue	28.9%	23.0%		28.0%	

Fiscal 2007 Compared with Fiscal 2006 (Restated)

Our fiscal 2007 gross margin was $146.7 million, or 28.9% of revenue, compared to $82.3 million, or 23.0% of revenue, for fiscal 2006. Our fiscal 2006 gross margin was negatively impacted by a $34.9 million write-down of inventory related to product discontinuances and there was no comparable write-down in fiscal 2007. Our fiscal 2007 gross margin was reduced by the following amounts related to the acquisition of Stratex: $8.3 million amortization of a portion of the fair value adjustments related to inventory and fixed assets; and $3.0 million of amortization on developed technology. Our fiscal 2007 gross margin was also impacted by an increase in gross margin attributed to the gross margin generated by the products and services acquired from Stratex and the margin generated by the increase in revenue from our North America Microwave segment.

Fiscal 2006 Compared with Fiscal 2005 (Restated)

Our fiscal 2006 gross margin of $82.3 million represented 23.0% of revenue, compared to 28.0% in fiscal 2005. The gross margin percentage decline reflected $34.9 million, or 9.8% of revenue, of inventory write-downs associated with product discontinuances in fiscal 2006. Gross margins benefited from increased shipments of TRuepoint, a new family of lower-cost, higher margin microwave radios. See Discussion of Business Segments below for further information.

Research and Development Expenses

	2007	2006	2007/2006 % Increase/ (Decrease)	2005	2006/2005 % Increase/ (Decrease)
	(In millions, except percentages)				
Research and development expenses	$39.4	$28.8	36.8%	$28.0	2.9%
% of revenue	7.8%	8.1%		9.0%	

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Fiscal 2007 Compared with Fiscal 2006

Research and development (R&D) expenses were $39.4 million in fiscal 2007, compared to $28.8 million in fiscal 2006. As a percent of revenue, these expenses decreased from 8.1% in fiscal 2006 to 7.8% in fiscal 2007. Of the total increase in the expense, $7.2 million of the increase is attributable to the research and development expense related to the Stratex merger. The remainder of the increase is primarily due to higher spending in fiscal 2007 related to our new TRuepoint family of microwave radios.

Fiscal 2006 Compared with Fiscal 2005

R&D expenses were $28.8 million in fiscal 2006, compared to $28.0 million in fiscal 2005. As a percent of revenue, these expenses decreased from 9.0% in fiscal 2005 to 8.1% in fiscal 2006. The increase of $0.8 million was primarily due to higher spending in 2006 related to our new TRuepoint family of microwave radios.

Selling and Administrative Expenses (Restated)

	2007 (Restated)	2006 (Restated)	2007/2006 % Increase/ (Decrease)	2005 (Restated)	2006/2005 % Increase/ (Decrease)
	(In millions, except percentages)				
Selling and administrative expenses	$98.9	$68.6	44.2%	$59.1	16.1%
% of revenue	19.5%	19.2%	N/M	19.0%	N/M

N/M Not meaningful

Fiscal 2007 Compared with Fiscal 2006 (Restated)

Our fiscal 2007 selling and administrative (S&A) expenses increased to $98.9 million from $68.6 million in fiscal 2006. As a percentage of revenue, these expenses increased from 19.2% of revenue in fiscal 2006 to 19.5% of revenue in fiscal 2007. Of the total increase, $19.8 million of the increase is attributable to the selling and administrative expenses acquired from Stratex. S&A expenses in fiscal 2006 were favorably impacted by a $1.8 million gain on the sale of a building in San Antonio, Texas. The remainder of the increase is due to higher selling expenses resulting from the increase in revenue.

Fiscal 2006 Compared with Fiscal 2005 (Restated)

S&A expenses increased from $59.1 million in fiscal 2005 to $68.6 million in fiscal 2006. As a percentage of revenue, these expenses increased from 19.0% in fiscal 2005 to 19.2% in fiscal 2006. The S&A increase is primarily related to charges associated with product discontinuances, stock-based compensation expense, and increased selling costs related to the 15.2% increase in sales, partially offset by the $1.8 million gain in 2006 as noted above. See Discussion of Business Segments below for further information.

Other Operating Expense Charges

In order to improve operating efficiencies and to create synergies through the consolidation of facilities, we have implemented restructuring plans to scale down our operations in Canada, France, the U.S., and Mexico.

In the third quarter of fiscal 2007, we implemented a restructuring plan to close our Montreal facility and reduce our Canadian workforce, and, to a lesser extent, our U.S. workforce. In the fourth quarter of fiscal 2007 we implemented plans to reduce our French and Mexican workforces. As part of these restructuring plans, we notified approximately 215 employees in Canada, the U.S., France, and Mexico that their employment will be terminated between March 30, 2007 and December 31, 2007. These plans are expected to be fully implemented by December 31, 2007. In fiscal 2007, we recorded restructuring charges of approximately $9.3 million ($5.1 million in our North America Microwave segment and $4.2 million in our International Microwave segment), all of which pertained to employee severance benefits. We anticipate that we will record an additional $2.2 million in restructuring charges associated with these plans in fiscal 2008 ($1.8 million in our North America Microwave segment and $0.4 in our International Microwave segment).

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In fiscal 2007, as part of the Stratex purchase, we estimated the fair value of acquired in-process research and development to be approximately $15.3 million, which we have reflected in Acquired in-process research and development expense in the accompanying fiscal 2007 consolidated statements of operations. This represents certain technologies under development, primarily related to the next generation of the Eclipse product line. We estimated that the technologies under development were approximately 50% complete at the date of acquisition. We expect to incur up to an additional $3.4 million to complete this development, with completion expected in late calendar 2007. We also recorded $7.5 million amortization of acquired intangible assets. In fiscal 2006, we recorded $3.8 million of restructuring expenses, which were primarily related to the relocation of our Montreal manufacturing activities to our San Antonio facility.

Income Taxes (Restated)

	2007 (Restated)	2006 (Restated)	2007/2006 % Increase/ (Decrease)	2005 (Restated)	2006/2005 % Increase/ (Decrease)
	(In millions, except percentages)				
Loss before income taxes	$(27.9)	$(31.8)	12.3%	$(6.5)	N/M
Income tax benefit (expense)	$ 6.1	$ (6.8)	189.7%	$(0.3)	N/M
% of loss before income taxes	21.9%	21.4%		4.6%	

The basis for determining our income tax benefit (expense) is discussed in Note R Income Taxes of the Consolidated Financial Statements under Part II, Item 8 below.

Our fiscal 2007 tax benefit was the result of foreign tax credits earned as a result of our international operations offset somewhat by unfavorable carve-out tax adjustments attributable to MCD.

Fiscal 2006 income tax expense relates primarily to a valuation allowance established in the period against certain net operating losses we have determined will not be realized subsequent to the decision to cease manufacturing activities in Canada.

At June 29, 2007, we had $8.8 million of federal alternative minimum tax (AMT) credit carryforwards, which do not expire. We also had U.S. net operating loss carryforwards of approximately $108.0 million. The tax loss carryforwards have expiration dates ranging between one year and no expiration in certain instances. We recorded a full valuation allowance on the net operating loss carryforward in the opening balance sheet of Stratex under purchase accounting. This adjustment resulted in an increase to goodwill. Any realization of this net operating loss carryforward in the future will be recorded as a reduction to goodwill. We also had foreign tax credit carryforwards in the amount of $4.7 million, which will begin to expire in 2017.

For periods prior to January 26, 2007, income tax expense has been determined as if MCD had been a stand-alone entity, although the actual tax liabilities and tax consequences applied only to Harris. Our income tax expense for those periods relates to income taxes paid or to be paid in foreign jurisdictions for which net operating loss carryforwards were not available and domestic taxable income is deemed offset by tax loss carryforwards for which an income tax valuation allowance had been previously provided for in the financial statements. Thus, there was no change in our tax provision for periods prior to fiscal 2007.

Related Party Transactions

Prior to the Stratex acquisition, Harris provided information services, human resources, financial shared services, facilities, legal support, and supply chain management services to us. The charges for these services were billed to us primarily based on actual usage.

These amounts were charged directly to us and were not part of the corporate allocations expense in the consolidated statements of operations for the periods presented in this report. The amount charged to us for these services was $12.2 million, $10.9 million and $10.3 million in fiscal years 2007, 2006 and 2005, respectively. These amounts are included in the cost of product sales and services and engineering, selling and administrative expenses captions in the consolidated statements of operations for the periods presented in this report.

There are other services Harris provided to us prior to the Stratex acquisition that were not directly charged to the Company. These functions and amounts are explained above under the subtitle Basis of Presentation. These amounts are included within Due to Harris Corporation on the consolidated balance sheets. Additionally, we have other receivables and payables in the normal course of business with Harris. These amounts are netted within Due to Harris Corporation on the consolidated balance sheets. Total receivables from Harris were $0.7 million and $7.5 million at June 29, 2007 and June 30, 2006, respectively. Total payables to Harris were $17.9 million and $20.1 million at June 29, 2007 and June 30, 2006.

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Harris was the primary source of our financing and equity activities for the periods presented in this report through January 26, 2007, the date of the Stratex acquisition. During the seven months ended January 26, 2007, Harris s net investment in us was increased by $24.1 million. During the fiscal 2006, Harris s provided $2.8 million to recapitalize one of our subsidiaries and Harris s net investment in us decreased by $7.8 million. During the fiscal 2005, Harris s provided $43.0 million to recapitalize some of our subsidiaries and Harris s net investment in us decreased by $13.3 million.

Additionally, through the date of the Stratex acquisition, Harris loaned funds to us to fund our international entities and we provided excess cash at various locations back to Harris. This arrangement ended on January 26, 2007. We recognized interest income and expense on these loans. The amount of interest income and expense for each of the three fiscal years in the period ended June 29, 2007 was not significant.

We have sales to, and purchases from, other Harris entities from time to time. Prior to the merger, the entity initiating the transaction sold to the other Harris entity at cost or transfer price, depending on jurisdiction. The entity making the sale to the end customer recorded the profit on the transaction above cost or transfer price, depending on jurisdiction. Subsequent to the merger, sales to and purchases from Harris entities are recorded at market price. Our sales to other Harris entities were $1.9 million, $6.5 million and $3.1 million in fiscal 2007, 2006 and 2005, respectively. We also recognized costs associated with related party purchases from Harris of $6.7 million, $12.7 million and $8.0 million in fiscal 2007, 2006 and 2005, respectively.

On January 26, 2007, we entered into a new Transition Services Agreement with Harris to provide for certain services during the period subsequent to the Stratex acquisition. These services are charged to us based primarily on actual usage and include database management, supply chain operating systems, eBusiness services, sales and service, financial systems, back office material resource planning support, HR systems, internal and information systems shared services support, network management and help desk support, and server administration and support. During the year ended June 29, 2007, Harris charged us $3.7 million for these services.

Prior to January 26, 2007, MCD used certain assets in Canada owned by Harris that were not contributed to us as part of the Combination Agreement. We continue to use these assets in our business and we entered into a 5 year lease agreement to accommodate this use. This agreement is a capital lease under U.S. generally accepted accounting principles. At June 29, 2007, our lease obligation to Harris was $5.9 million and the related asset amount is included in our property, plant and equipment. Quarterly lease payments are due to Harris based on the amount of 103% of Harris annual depreciation calculated in accordance with U.S. generally accepted accounting principles. Our depreciation expense on this capital lease was $0.8 million in fiscal 2007. As of June 29, 2007, the future minimum payments for this lease are $3.1 million for fiscal 2008, $1.0 million for fiscal 2009, $0.6 million for fiscal 2010, $0.4 million for fiscal 2011 and $0.8 million for fiscal 2012.

Discussion of Business Segments

North America Microwave Segment (Restated)

	2007 (Restated)	2006 (Restated)	2007/2006 % Increase/ (Decrease)	2005 (Restated)	2006/2005 % Increase/ (Decrease)
	(In millions, except percentages)				
Revenue	$216.3	$168.1	28.7%	$159.8	5.2%
Segment operating income	$ 6.3	$ 14.8	(57.4)%	$ 8.9	66.3%
% of revenue	2.9%	8.8%		5.6%	

Fiscal 2007 Compared with Fiscal 2006 (Restated)

North America Microwave segment revenue increased by $48.2 million or 28.7% from fiscal 2006 to fiscal 2007. Revenue for fiscal 2007 included $7.7 million of revenue related to the acquisition of Stratex. The remainder of the increase reflects increased demand for our products driven primarily by mobile operators that are upgrading and expanding networks for high bandwidth voice, data and video services and by private networks upgrading for increased reliability, survivability and interoperability.

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Fiscal 2007 operating income was reduced by the following amounts related to the acquisition of Stratex: $0.4 million amortization of the fair value adjustments for fixed assets, $1.4 million amortization of developed technology, trade names, customer relationships, and non-compete agreements, and $5.1 million of restructuring charges and $2.7 million of integration and severance charges undertaken in connection with the merger including the reduction in force at our Montreal facility. North America operating income increased by $0.8 million attributable to the acquisition of Stratex.

Operating margin as a percentage of revenue also declined from 2006 to 2007 due to a higher mix of lower margin service revenue in fiscal 2007 compared to fiscal 2006.

Fiscal 2006 Compared with Fiscal 2005 (Restated)

North America Microwave segment revenue increased by $8.3 million or 5.2% from fiscal 2005 to fiscal 2006. This segment had operating income of $14.8 million in fiscal 2006 compared to operating income of $8.9 million in fiscal 2005. The strengthening market for microwave radios primarily drove the increase in revenue. Demand for both private networks and mobile service providers continued to be driven by capacity expansion and by network upgrades to provide high-reliability, high-bandwidth applications.

The increase in operating income was primarily due to increased shipments in fiscal 2006 of TRuepoint, a family of lower-cost microwave radios. This was partially offset by increased engineering, selling and administrative expenses in fiscal 2006 when compared to fiscal 2005 as a result of increased selling expenses and stock and cash based compensation plan expenses.

International Microwave Segment (Restated)

	2007 (Restated)	**2006 (Restated)**	**2007/2006 % Increase/ (Decrease)**	**2005 (Restated)**	**2006/2005 % Increase/ (Decrease)**

(In millions, except percentale="PADDING-BOTTOM: 2px">
Increase

	2008	2007	(Decrease)
	(dollars in thousands, except per share amounts)		
Interest income	$ 11,380	$ 11,624	$ (244)
Interest expense	5,577	5,630	(53)
Net interest income	5,803	5,994	(191)
Provision for loan losses	2,531	(63)	2,594
Net interest income after provision for loan losses	3,272	6,057	(2,785)
Non-interest income	1,640	1,402	238
Non-interest expenses	5,313	5,303	10
Income (loss) before provision for income taxes	(401)	2,156	(2,557)
Provision for (benefit from) income taxes	(149)	904	(1,053)
Net income (loss)	$ (252)	$ 1,252	$ (1,504)
Income (loss) per share – Basic	$ (.04)	$ .21	$ (.25)
Income (loss) per share – Diluted	$ (.04)	$ .21	$ (.25)
Comprehensive income (loss)	$ (264)	$ 1,261	$ (1,525)

The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

Three Months Ended June 30,

	2008 versus 2007		
	Total	Change due to	
	change	Rate	Volume
		(in thousands)	
Loans, net	$ (210)	$ (1,718)	$ 1,508
Investment securities	131	42	89
Other	(165)	(131)	(34)
Total interest-earning assets	(244)	(1,807)	1,563
Deposits	(102)	(885)	783
Other borrowings	49	(71)	120
Total interest-bearing liabilities	(53)	(956)	903
Net interest income	$ (191)	$ (851)	$ 660

Net Interest Income

Net interest income declined by $191,000 for the second quarter 2008 compared to 2007. Total interest income declined by $244,000. While average interest earning assets grew to $625.3 million for the second quarter 2008 compared to $539.7 million for the same period in 2007, an increase of $85.6 million, yields declined to 7.32% from 8.64% and the net interest margin declined 72 basis points from 4.45% to 3.73%. The decline in interest income due to rates of $1.8 million exceeded the increase of $1.6 million due to volume growth.

The decline in rates benefited the Bank in a reduction in interest expense of $53,000. The decline due to rates of $956,000 was partly offset by the increase due to deposit and borrowing volume growth of $903,000 for the second quarter of 2008 compared to 2007.

The rapid nature of the reduction in the target federal funds rate by the FOMC over the last year from 5.25% to 2.00%, for asset-sensitive institutions, tended to reduce yields on interest earning assets more quickly than rates paid on interest bearing liabilities, primarily deposits. This compression of the net interest margin may ease somewhat in coming months as deposit and borrowing rates reprice.

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Provision for Loan Losses

The provision for loan losses increased to $2.5 million for the second quarter 2008 reflecting management's assessment of increased credit risk for the Company related to the current California and national business, real estate and consumer economic slowdown. The provision is impacted by both quantitative factors resulting from actual loss experience and qualitative factors which take into consideration management's judgment regarding several internal and external factors including concentration of credit risk and overall macroeconomic conditions. The higher provision is primarily a result of increased qualitative factors which reflect the aforementioned economic circumstances and outlook. The Bank continues to diligently monitor the portfolio and has enhanced underwriting standards as necessary to prudently reflect the dynamics of the current economic outlook.

Non-Interest Income

Non-interest income includes gains from sale of loans, loan document fees, service charges on deposit accounts, loan servicing fees and other revenues not derived from interest on earning assets. Total non-interest income increased by $238,000, or 17.0%, for the second quarter 2008 compared to the same period in 2007. Gain on loan sales increased by $108,000 or 47.4%, due to the sale of $6.3 million in guaranteed SBA loans. Other non-interest income increased by $300,000 due to a $301,000 net gain on the sale of other foreclosed assets. These gains were partly offset by a decline in other loan fees, including loan originations, of $146,000.

Non-Interest Expenses

Non-interest expense remained relatively flat for the second quarter 2008 compared to 2007, increasing $10,000, or 0.2%.

Results of Operations –Six-Month Comparison

The following table sets forth for the periods indicated, certain items in the consolidated income statements of the Company and the related changes between those periods:

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007	Increase (Decrease)
	(dollars in thousands, except per share amounts)		
Interest income	$ 23,391	$ 22,672	$ 719
Interest expense	11,427	10,933	494
Net interest income	11,964	11,739	225
Provision for loan losses	3,204	222	2,982
Net interest income after provision for loan losses	8,760	11,517	(2,757)
Non-interest income	3,054	2,577	477
Non-interest expenses	10,493	10,502	(9)
Income before provision for income taxes	1,321	3,592	(2,271)
Provision for income taxes	576	1,514	(938)
Net income	$ 745	$ 2,078	$ (1,333)
Income per share – Basic	$ .13	$ .36	$ (.23)
Income per share – Diluted	$ .12	$ .34	$ (.22)
Comprehensive income	$ 766	$ 2,102	$ (1,336)

The following table sets forth the changes in interest income and expense attributable to changes in rate and volume:

	Six Months Ended June 30, 2008 versus 2007		
	Total change	Change due to	
		Rate	Volume
	(in thousands)		
Loans, net	$ 715	$ (2,470)	$ 3,185
Investment securities	252	81	171
Other	(248)	(188)	(60)
Total interest-earning assets	719	(2,577)	3,296
Deposits	281	(1,164)	1,445
Other borrowings	213	(140)	353
Total interest-bearing liabilities	494	(1,304)	1,798
Net interest income	$ 225	$ (1,273)	$ 1,498

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Net Interest Income

Net interest income increased by $225,000 for the first six months of 2008 compared to 2007. Total interest income increased $719,000 million, or 3.2%, for the period ended June 30, 2008 compared to the same period in 2007. The increase of $3.3 million due to growth in average earning assets was partly offset by a $2.6 million decline due to lower rates. For the first six months of 2008, average earning assets were $616.4 million compared to $529.9 million for the same period in 2007, an increase of 16.3%. This growth was offset by the decline in yield on interest earning asset to 7.63% for the first six months of 2008 from 8.63% for 2007 and a corresponding 57 basis point decline in net interest margin from 4.47% to 3.90%.

Interest expense increased $494,000, or 4.5% for the first six months of 2008 compared to 2007. The increase due to volume of $1.8 million was partially offset due to lower rates paid on deposits and borrowing. Rates paid on interest bearing liabilities declined from 4.83% for the first six months on 2007 to 4.24% for the same period of 2008.

The rapid nature of the reduction in the target federal funds rate by the FOMC over the last year from 5.25% to 2.00%, for asset-sensitive institutions, tended to reduce yields on interest earning assets more quickly than rates paid on interest bearing liabilities, primarily deposits. This compression of the net interest margin may ease somewhat in coming months as deposit and borrowing rates reprice.

Provision for Loan Losses

The provision for loan losses increased to $3.2 million for the first six months of 2008 compared to $222,000 for the same period of 2007. This increase reflected management's assessment of increased credit risk for the Company related to the current California and national business, real estate and consumer economic slowdown. The provision is impacted by both quantitative factors resulting from actual loss experience and qualitative factors which take into consideration management's judgment regarding several internal and external factors including concentration of credit risk and overall macroeconomic conditions. The higher provision is primarily a result of increased qualitative factors which reflect the aforementioned economic circumstances and outlook. The Bank continues to diligently monitor the portfolio and has enhanced underwriting standards as necessary to prudently reflect the dynamics of the current economic outlook.

Non-Interest Income

Non-interest income for the first six months of 2008 increased by $477,000 over the same period of 2008 primarily due to an increase of $286,000 in gains on loans sales and the net gain on the sale of other foreclosed assets of $301,000 included in other income. The Company sold $10.1 million in guaranteed SBA loans and $1.7 million in unguaranteed for the first six months of 2008 compared to $3.5 million in unguaranteed SBA loans sold for the same period of 2007. These increases were partly offset by a decline of $319,000 in other loan fees.

Non-Interest Expenses

Non-interest expenses remained flat with a decline of $9,000 for the first six months of 2008 compared to 2007.

Interest Rates and Differentials

The following table illustrates average yields on interest-earning assets and average rates on interest-bearing liabilities for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest-earning assets:		(dollars in thousands)		
Interest-earning deposits in other financial institutions:				

Average balance	$ 982	$ 839	$ 1,004	$ 831
Interest income	10	9	19	19
Average yield	4.11%	4.35%	3.76%	4.71%
Federal funds sold:				
Average balance	$ 11,152	$ 17,126	$ 10,117	$ 14,770
Interest income	60	226	137	385
Average yield	2.16%	5.29%	2.72%	5.26%
Investment securities:				
Average balance	$ 45,835	$ 38,934	$ 45,294	$ 38,590
Interest income	590	459	1,155	903
Average yield	5.18%	4.73%	5.13%	4.72%
Gross loans:				
Average balance	$ 567,310	$ 482,758	$ 559,955	$ 475,685
Interest income	10,720	10,930	22,080	21,365
Average yield	7.60%	9.08%	7.93%	9.06%
Total interest-earning assets:				
Average balance	$ 625,279	$ 539,657	$ 616,370	$ 529,876
Interest income	11,380	11,624	23,391	22,672
Average yield	7.32%	8.64%	7.63%	8.63%

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Interest-bearing liabilities:	(dollars in thousands)			
Interest-bearing demand deposits:				
Average balance	$ 60,325	$ 60,186	$ 65,445	$ 55,187
Interest expense	269	551	677	958
Average cost of funds	1.80%	3.67%	2.08%	3.50%
Savings deposits:				
Average balance	$ 14,585	$ 15,537	$ 14,350	$ 15,429
Interest expense	128	137	258	266
Average cost of funds	3.52%	3.53%	3.61%	3.48%
Time certificates of deposit:				
Average balance	$ 366,258	$ 292,388	$ 349,299	$ 289,131
Interest expense	3,932	3,743	7,889	7,319
Average cost of funds	4.54%	5.13%	4.54%	5.10%
Other borrowings:				
Average balance	$ 108,000	$ 97,581	$ 112,291	$ 97,099
Interest expense	1,248	1,199	2,603	2,390
Average cost of funds	4.64%	4.93%	4.66%	4.96%
Total interest-bearing liabilities:				
Average balance	$ 549,168	$ 465,692	$ 541,385	$ 456,846
Interest expense	5,577	5,630	11,427	10,933
Average cost of funds	4.08%	4.85%	4.24%	4.83%
Net interest income	$ 5,803	$ 5,994	$ 11,964	$ 11,739
Net interest spread	3.24%	3.79%	3.39%	3.80%
Net interest margin	3.73%	4.45%	3.90%	4.47%

Average yields and rates are derived by dividing interest income by the average balances of interest-earning assets and by dividing interest expense by the average balances of interest-bearing liabilities for the periods indicated. Amounts outstanding are averages of daily balances during the applicable periods.

Nonaccrual loans are included in the average balance of loans outstanding.

Net interest income is the difference between the interest and fees earned on loans and investments and the interest expense paid on deposits and other liabilities. The amount by which interest income will exceed interest expense depends on the volume or balance of earning assets compared to the volume or balance of interest-bearing deposits and liabilities and the interest rate earned on those interest-earning assets compared to the interest rate paid on those interest-bearing liabilities.

Net interest margin is net interest income expressed as a percentage of average earning assets. It is used to measure the difference between the average rate of interest earned on assets and the average rate of interest that must be paid on liabilities used to fund those assets. To maintain its net interest margin, the Company must manage the relationship between interest earned and paid.

Financial Condition

Average total assets increased by $87 million, or 16.0%, to $632 million at June 30, 2008 compared to $545 million at June 30, 2007. Average total equity increased by 6.7% to $51.3 million at June 30, 2008 from $48.1 million at June 30, 2007. Average total gross loans at June 30, 2008 increased by $84 million, or 17.7%, to $560 million from $475.7 million at June 30, 2007. Average deposits also increased from $394.1 million at June 30, 2007 to $463.5 million as of June 30, 2008.

The book value per share increased to $8.52 at June 30, 2008 from $8.51 at December 31, 2007.

Selected balance sheet accounts (dollars in thousands)	June 30, 2008	December 31, 2007	Increase (Decrease)	Percent of Increase (Decrease)
Cash and cash equivalents	$ 12,972	$ 9,289	$ 3,683	39.6%
Investment securities available-for-sale	5,390	12,664	(7,274)	(57.4%)
Investment securities held-to-maturity	34,415	25,617	8,798	34.3%
Loans-held for sale	122,761	110,415	12,346	11.2%
Loans-held for investment, net	446,384	428,750	17,634	4.1%
Total Assets	647,661	609,850	37,811	6.2%
Total Deposits	485,782	433,739	52,043	12.0%
Federal Home Loan Bank advances	105,000	121,000	(16,000)	(13.2%)
Total Stockholders' Equity	50,400	50,159	241	0.5%

The following schedule shows the balance and percentage change in the various deposits:

	June 30, 2008	December 31, 2007	Increase (Decrease)	Percent of Increase (Decrease)
		(dollars in thousands)		
Non-interest-bearing deposits	$ 36,041	$ 33,240	$ 2,801	8.4%
Interest-bearing deposits	56,433	75,016	(18,583)	(24.8%)
Savings	15,705	14,905	800	5.4%
Time certificates of $100,000 or more	92,263	60,782	31,481	51.8%
Other time certificates	285,340	249,796	35,544	14.2%
Total deposits	$ 485,782	$ 433,739	$ 52,043	12.0%

Nonaccrual, Past Due and Restructured Loans

A loan is considered impaired when, based on current information, it is probable that the Company will be unable to collect the scheduled payments of principal or interest under the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments. Loans that experience insignificant payment delays or payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays or payment shortfalls on a case-by-case basis. When determining the possibility of impairment, management considers the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. For

collateral-dependent loans, the Company uses the fair value of collateral method to measure impairment. All other loans, except for securitized loans, are measured for impairment based on the present value of future cash flows. Impairment is measured on a loan-by-loan basis for all loans in the portfolio except for the securitized loans, which are evaluated for impairment on a collective basis.

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The following schedule reflects recorded investment in loans that are considered to be impaired:

	June 30, 2008	December 31, 2007
	(in thousands)	
Impaired loans without specific valuation allowances	$ -	$ 33
Impaired loans with specific valuation allowances	10,655	16,468
Specific valuation allowances allocated to impaired loans	(328)	(966)
Impaired loans, net	$ 10,327	$ 15,535
Average investment in impaired loans	$ 10,213	$ 9,386

Impaired loans declined by $5.3 million from December 31, 2007 to June 30, 2008. This is primarily related to a single loan on a condominium project. The loan on this project was retired with a loan made by Community West Bank to the junior deed holder on the property after the junior deed holder foreclosed. The Company believes that the new borrower and guarantors evidence satisfactory capacity to meet the terms of the new obligation and have been performing as agreed.

The following schedule reflects recorded investment at the dates indicated in certain types of loans:

	June 30, 2008	December 31, 2007
	(dollars in thousands)	
Nonaccrual loans	$ 18,364	$ 15,341
SBA guaranteed portion of loans included above	(6,809)	(5,695)
Nonaccrual loans, net	$ 11,555	$ 9,646
Troubled debt restructured loans, gross	$ 6,031	$ 7,255
Loans 30 through 89 days past due with interest accruing	$ 4,337	$ 18,898
Allowance for loan losses to gross loans	1.12%	.81%
Allowance for loan losses to gross loans less SBA guaranteed	1.34%	.97%

The higher allowance is primarily a result of increased qualitative factors reflecting management's judgment regarding several internal and external factors including concentration of credit risk and overall economic conditions. The Bank continues to diligently monitor the portfolio and has enhanced underwriting standards as necessary to prudently reflect the dynamics of the current economic outlook.

CWB generally repurchases the guaranteed portion of SBA loans from investors when those loans become past due 120 days. After the foreclosure and collection process is complete, the SBA reimburses CWB for this principal balance. Therefore, although these balances do not earn interest during this period, they generally do not result in a loss of principal to CWB.

Liquidity and Capital Resources

Liquidity Management

The Company has established policies as well as analytical tools to manage liquidity. Proper liquidity management ensures that sufficient funds are available to meet normal operating demands in addition to unexpected customer demand for funds, such as high levels of deposit withdrawals or increased loan demand, in a timely and cost effective

manner. The most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of core deposits. Ultimately, public confidence is gained through profitable operations, sound credit quality and a strong capital position. The Company's liquidity management is viewed from a long-term and short-term perspective, as well as from an asset and liability perspective. Management monitors liquidity through regular reviews of maturity profiles, funding sources and loan and deposit forecasts to minimize funding risk. The Company has asset/liability committees ("ALCO") at the Board and Bank management level to review asset/liability management and liquidity issues. The Company maintains strategic liquidity and contingency plans. The Company uses short-term time certificates from other financial institutions to meet projected liquidity needs.

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CWB has a credit line with the Federal Home Loan Bank ("FHLB"). Advances are collateralized in the aggregate by CWB's eligible loans and securities. Total FHLB advances were $105.0 million and $121.0 million at June 30, 2008 and December 31, 2007, respectively, and include $7.5 million and $17.5 million, respectively, borrowed at variable rates which adjust to the current LIBOR rate either monthly or quarterly. At June 30, 2008 and December 31, 2007, CWB had securities pledged to FHLB of $39.8 million at carrying value and loans of $147.1 million, and $38.1 million at carrying value and loans of $150 million, respectively. Total FHLB interest expense for the six months ended June 30, 2008 and 2007 was $2.6 million and $2.4 million, respectively. At June 30, 2008, CWB had $22.2 million available for additional borrowing.

CWB also maintains four federal funds purchased lines for a total borrowing capacity of $23.5 million.

The Company has not experienced disintermediation and does not believe this is a potentially probable occurrence. The liquidity ratio of the Company was 22% at June 30, 2008 and December 31, 2007. The Company's liquidity ratio fluctuates in conjunction with loan funding demands. The liquidity ratio consists of cash and due from banks, deposits in other financial institutions, available-for-sale investments, federal funds sold and loans held for sale, divided by total assets.

CWBC's routine funding requirements primarily consist of certain operating expenses. Normally, CWBC obtains funding to meet its obligations from dividends collected from its subsidiary and has the capability to issue debt securities. Federal banking laws regulate the amount of dividends that may be paid by banking subsidiaries without prior approval.

Interest Rate Risk

The Company is exposed to different types of interest rate risks. These risks include: lag, repricing, basis and prepayment risk.

- Lag Risk – lag risk results from the inherent timing difference between the repricing of the Company's adjustable rate assets and liabilities. For instance, certain loans tied to the prime rate index may only reprice on a quarterly basis. However, at a community bank such as CWB, when rates are rising, funding sources tend to reprice more slowly than the loans. Therefore, for CWB, the effect of this timing difference is generally favorable during a period of rising interest rates and unfavorable during a period of declining interest rates. This lag can produce some short-term volatility, particularly in times of numerous prime rate changes.

- Repricing Risk – repricing risk is caused by the mismatch in the maturities / repricing periods between interest-earning assets and interest-bearing liabilities. If CWB was perfectly matched, the net interest margin would expand during rising rate periods and contract during falling rate periods. This is so since loans tend to reprice more quickly than do funding sources. Typically, since CWB is somewhat asset sensitive, this would also tend to expand the net interest margin during times of interest rate increases.

- Basis Risk – item pricing tied to different indices may tend to react differently, however, all CWB's variable products are priced off the prime rate.

- Prepayment Risk – prepayment risk results from borrowers paying down / off their loans prior to maturity. Prepayments on fixed-rate products increase in falling interest rate environments and decrease in rising interest rate environments. Since a majority of CWB's loan originations are adjustable rate and set based on prime, and there is little lag time on the reset, CWB does not experience significant prepayments. However, CWB does have more prepayment risk on its securitized and manufactured housing loans and its mortgage-backed investment securities.

Management of Interest Rate Risk

To mitigate the impact of changes in market interest rates on the Company's interest-earning assets and interest-bearing liabilities, the amounts and maturities are actively managed. Short-term, adjustable-rate assets are generally retained as they have similar repricing characteristics as our funding sources. CWB sells mortgage products and a portion of its SBA loan originations. While the Company has some interest rate exposure in excess of five years, it has internal policy limits designed to minimize risk should interest rates rise. Currently, the Company does not use derivative instruments to help manage risk, but will consider such instruments in the future if the perceived need should arise.

Loan sales - The Company's ability to originate, purchase and sell loans is also significantly impacted by changes in interest rates. Increases in interest rates may also reduce the amount of loan and commitment fees received by CWB. A significant decline in interest rates could also decrease the size of CWB's servicing portfolio and the related servicing income by increasing the level of prepayments.

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Capital Resources

The Company (on a consolidated basis) and CWB are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Company's and CWB's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and CWB must meet specific capital guidelines that involve quantitative measures of the Company's and CWB's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Company's and CWB's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

The Federal Deposit Insurance Corporation Improvement Act ("FDICIA") contains rules as to the legal and regulatory environment for insured depository institutions, including reductions in insurance coverage for certain kinds of deposits, increased supervision by the federal regulatory agencies, increased reporting requirements for insured institutions and new regulations concerning internal controls, accounting and operations. The prompt corrective action regulations of FDICIA define specific capital categories based on the institutions' capital ratios. The capital categories, in declining order, are "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized" and "critically undercapitalized". To be considered "well capitalized", an institution must have a core capital ratio of at least 5% and a total risk-based capital ratio of at least 10%. Additionally, FDICIA imposes Tier I risk-based capital ratio of at least 6% to be considered "well capitalized". Tier I risk-based capital is, primarily, common stock and retained earnings, net of goodwill and other intangible assets.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). The Company's and CWB's actual capital amounts and ratios as of June 30, 2008 and December 31, 2007 are presented in the table below:

(dollars in thousands)	Total Capital	Tier 1 Capital	Risk-Weighted Assets	Adjusted Average Assets	Total Risk-Based Capital Ratio	Tier 1 Risk-Based Capital Ratio	Tier 1 Leverage Ratio
June 30, 2008							
CWBC (Consolidated)	$ 56,819	$ 50,292	$ 522,153	$ 642,996	10.88%	9.63%	7.82%
CWB	56,557	50,020	523,174	641,663	10.81	9.56	7.80
December 31, 2007							
CWBC (Consolidated)	$ 54,479	$ 50,067	$ 507,228	$ 596,631	10.74%	9.87%	8.39%
CWB	51,520	47,108	507,017	591,755	10.16	9.29	7.96
Well capitalized ratios					10.00	6.00	5.00
Minimum capital ratios					8.00	4.00	4.00

The Company does not anticipate any material changes in its capital resources. CWBC has common equity only and does not have any off-balance sheet financing arrangements. The Company has not reissued any treasury stock nor does it have any immediate plans or programs to do so.

In consideration of the near-term economic and capital raising environment, the Company eliminated this quarter's dividend.

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Supervision and Regulation

Banking is a complex, highly regulated industry. The banking regulatory scheme serves not to protect investors, but is designed to maintain a safe and sound banking system, to protect depositors and the FDIC insurance fund, and to facilitate the conduct of sound monetary policy. In furtherance of these goals, Congress and the states have created several largely autonomous regulatory agencies and enacted numerous laws that govern banks, bank holding companies and the banking industry. Consequently, the Company's growth and earnings performance, as well as that of CWB, may be affected not only by management decisions and general economic conditions, but also by the requirements of applicable state and federal statutes and regulations and the policies of various governmental regulatory authorities, including the Board of Governors of the Federal Reserve Bank ("FRB"), the FDIC, and the Office of the Comptroller of the Currency ("OCC"). For a detailed discussion of the regulatory scheme governing the Company and CWB, please see the discussion in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operation – Supervision and Regulation."

ITEM 4T. CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer, with the participation of the Company's management, carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer believe that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective in making known to them material information relating to the Company (including its consolidated subsidiaries) required to be included in this report.

Disclosure controls and procedures, no matter how well designed and implemented, can provide only reasonable assurance of achieving an entity's disclosure objectives. The likelihood of achieving such objections is affected by limitations inherent in disclosure controls and procedures. These include the fact that human judgment in decision-making can be faulty and that breakdowns in internal control can occur because of human failures such as simple errors or mistakes or intentional circumvention of the established process.

There was no change in the Company's internal control over financial reporting, known to the Chief Executive Officer or the Chief Financial Officer, that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is involved in various litigation of a routine nature that is being handled and defended in the ordinary course of the Company's business. In the opinion of management, based in part on consultation with legal counsel, the resolution of these litigation matters will not have a material impact on the Company's financial position or results of operations.

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

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company held its 2008 annual meeting of shareholders ("Meeting") on May 22, 2008. At the Meeting, the Company's shareholders considered and voted on the following matter:

1. Election of Directors. The Election of the following eight persons to the Board of Directors to serve until the 2009 Meeting and until their successors are elected and have qualified:

	Votes For	Votes Withheld
Robert H. Bartlein	4,315,166	203,772
Jean W. Blois	4,323,760	195,178
John D. Illgen	4,191,332	327,606
Lynda J. Nahra	4,316,321	202,617
William R. Peeples	4,341,021	177,917
James R. Sims, Jr.	4,319,805	199,133
Kirk B. Stovesand	4,336,866	182,072
C. Richard Whiston	4,323,922	195,016

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

Exhibits.

31.1 Certification of Chief Executive Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer of the Registrant pursuant to Rule 13a-14(a) or Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.

*32.1 Certification of Chief Executive Officer and Chief Financial Officer of the Registrant pursuant to Rule 13a-14(b) or Rule 15d-14(b), promulgated under the Securities Exchange Act of 1934, as amended, and 18 U.S.C. 1350.

*This certification is furnished to, but shall not be deemed filed, with the Commission. This certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates it by reference.

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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.

COMMUNITY WEST BANCSHARES
(Registrant)

Date: August 14, 2008

/s/Charles G. Baltuskonis
Charles G. Baltuskonis
Executive Vice President and
Chief Financial Officer

On Behalf of Registrant and as
Principal Financial and Accounting Officer

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EXHIBIT INDEX

Exhibit Number	Description of Document
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