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HRS - Q2 2013 Harris Earnings Conference Call

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OVERVIEW:

HRS reported 2Q13 revenues down 2%, producing EPS of $1.25. Mgt. gave revised guidance of FY13 revenue down 2-4% and FY13 EPS of $5.00-5.20.

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PRESENTATION

Operator

Good day ladies and gentlemen, and welcome to the Second Quarter 2013 Harris Earnings Conference Call. At this time, all participants are in listen-only mode. Following the prepared remarks, there will be a question-and-answer session.

(Operator Instructions)

I would now like to turn the presentation over to your host for today, Ms. Pamela Padgett, Vice President in Investor Relations. Please proceed.

Pamela Padgett - *Harris Corp - VP, IR*

Thank you. Good morning, everyone, and welcome to our Second Quarter Fiscal 2013 Earnings Call. I'm Pamela Padgett, and on the call today is Bill Brown, President and CEO, and Gary McArthur, Senior Vice President and Chief Financial Officer. Before we get started, a few words on forward-looking statements.

In the course of this teleconference, Management may make forward-looking statements. Forward-looking statements involve assumptions, risks and uncertainties that could cause actual results to differ materially from those statements. For more information and a discussion of such assumptions, risks, and uncertainties, please see the press release and filings made by Harris with the SEC. In addition, in our press release and on this teleconference and the related presentation, we will discuss certain financial measures and information that are non-GAAP financial measures. A reconciliation to the comparable GAAP measures is included in the tables of our press release and on the Investor Relations section of our Web site, which is www.harris.com. A replay of this call will also be available on the Investor Relations section of our Web site. With that, Bill, I will turn the call over to you.

Bill Brown - *Harris Corporation - President, CEO*

Well, great. Thank you, Pam, and welcome to our Second Quarter Fiscal 2013 Earnings Call. Since our first-quarter earnings call in late October, the government market has become more uncertain, and spending more constrained. But even in this challenging environment, second-quarter results were solid. Turning to slides 3 and 4 in the presentation, earnings per share was $1.25, $0.01 higher than prior-year non-GAAP EPS, and $0.07 higher

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than prior-year GAAP EPS, even with revenue down 2%. Orders were up 30% over the prior year, and up double digit in all three segments, resulting in a booked-to-bill of greater than 1, and funded backlog essentially flat to prior quarter, and up about 10% over prior year.

Our continued focus on operational excellence and productivity is mitigating the impact of lower revenue. Cost reductions from restructuring actions and efficiencies in manufacturing and supply chain are now tracking above our target of $75 million; and we continue to further reduce corporate expense, which is down 15% in the first half, and is now on track to be down about 20% for the year versus fiscal 2012. The cost reduction is not coming at the expense of investment in the future. While we continue to focus on lowering costs, we are increasing investment in product development, with total Company-funded R&D up 15% in the quarter, on top of a 4% increase in Q1. Year over year tactical communications operating margin held steady again this quarter, while operating margin for the RF segment was slightly lower, as a result of business mix related to revenue growth in public safety.

Government communications systems reported another excellent quarter, with revenue growth of 4% and operating margin of 14.9%; and our growth initiatives in integrated network solutions performed well, with CapRock and health care achieving significant increases in orders and revenue, as well as improved operating performance. Gary will provide a little more color on segment performance in just a few minutes. Free cash flow was solid in the quarter at $120 million, bringing us to $200 million, or approximately $200 million, for the first half of fiscal '13, about 25% higher than prior year. We continue to tighten down on capital spending, and for the first half are trending well below last year in our previous guidance.

While our results in the quarter were solid, the indecision and political gridlock in Washington is creating an even more challenging budget environment. The potential for an extended CR, combined with the continuing threat of sequestration, is creating a good deal of uncertainty around expected spending levels. Since early January, the commentary and tone out of the DoD has changed significantly, and they've now dropped their previous approach of not planning for sequestration. Deputy Secretary of Defense Ash Carter, in a mid-January memo, directed the services to slow spending now and plan for the worst. This was followed by budget guidance memos from each of the services outlining immediate actions to reduce overall spending -- freezing civilian hiring, terminating temporary employees, deferring maintenance, and looking at all contracts for savings, and if necessary, to consider civilian furloughs.

Within the last few weeks, we've seen a market change in behavior from several of our US tactical radio customers, as they've turned their attention to sorting out what they can afford to spend, and where they need to preserve funding in the face of no budget, a possible extended CR, and even potentially bigger sequestration cuts. This sorting out of budget priorities without having any clarity on what the ultimate budget will be is causing procurement to slow. Although the deadline remains on the horizon, it sure feels to us as if our customers are starting to act like sequestration has already been triggered. As you know, our prior guidance, which was initially set in April of last year, didn't include sequestration. We're hopeful that this gridlock is relatively short-lived, and that we will soon see some budget clarity with procurement back on track. But for now, we feel it is prudent to reflect in our guidance the reduced discretionary spending we're now seeing, and what we believe is the potential impact of greater budget uncertainty on our back-half results. I will come back with a few comments before we open up the call to questions, so let me now turn it over to Gary to discuss segment results.

Gary McArthur - *Harris Corp - SVP & CFO*

Thank you, Bill, and good morning. Moving to segment results on slide 5, revenue for RF Communications was $486 million, and declined 8%, compared to $526 million in the prior year. Orders for the segment totaled $402 million, and booked-to-bill was 0.83. In Tactical Communications, revenue was $337 million and declined 14%. A decline in DoD revenue was partially offset by higher international revenue. As we previously communicated, we are expecting tough year over year revenue compares in fiscal 2013, as the market transitions from strong up-tempo to a multi-billion-dollar modernization cycle.

Tactical Communications orders were $287 million, backlog was $561 million, and booked-to-bill was 0.85. Orders in both DoD and international were up significantly from the prior year, resulting in a booked-to-bill slightly better than in the first quarter, and limiting backlog erosion to about $50 million. Based on a bottoms-up analysis of specific opportunities over the next 12 to 18 months, the opportunity pipeline is about $1.2 billion in the US, with close to $600 million in the proposal or closure phases. The international pipeline is $2.4 billion, with over $800 million in the proposal

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or closure phases. Once an opportunity makes it to these phases, our win rate is typically very high. Key wins in the quarter highlight how we are expanding our addressable markets through product investment and convergence of military and civil security in the international markets.

In the international market, Harris received orders totaling $42 million -- $36 million in the quarter, and $6 million after the close of the quarter -- from a country in central Asia for the first phase of a multi-phase integrated C-4ISR system that uses Falcon 3 high-capacity line-of-sight radios as a high-speed, secure communications backbone. An additional $50 million order we were counting on now looks to be moving out of our fiscal year as a result of a longer FMS approval cycle than expected, contributing to the reduced revenue guidance for RF. The political climate continues to improve, and we remain confident that the $400 million of future opportunity in this central Asia country will be realized. Harris was awarded $33 million in orders from a NATO country to supply $22 million in Falcon 3 hand-held radios, and $11 million in smaller, secure personal radios. Several years ago, Harris was a new entrant in the international secure personal radio market segment. We quickly gained market share, selling over 39,000 units; and for calendar 2012, we are now ranked number one in the international market.

The US market for personal radios is just emerging, and was initiated as a sole source procurement of radios called rifleman radios. Under the HMS portion of the [JHRS] program of record, with open procurement for rifleman radios now under way, we are bringing this very successful radio back to the US, and incorporating the SRW wave form, leveraging the distinct advantage gained from product synergies. You may recall from our June analyst meeting that the US version is called the RF330E.

In several international markets we are benefiting from convergent synergies between military tactical radio and public safety opportunities. In the second quarter we received a $31-million order from the Republic of Trinidad and Tobago for a P25 land mobile radio system to fully interoperable seamless communication between military personnel using existing Falcon radios and law enforcement agencies providing public safety. In this instance, a long-standing tactical radio relationship expanded into a public safety opportunity. We are seeing similar tactical radio and public safety opportunities in Latin America. In Brazil, we received several orders totaling $24 million to supply Falcon 3 radios and Unity radios to provide interoperability between military and civil police, similar to what we saw last quarter from Mexico.

In Public Safety and Professional Communications revenue growth was strong, increasing 10% to $149 million, and orders were up 35%. Our backlog in public safety is solid, and contains multi-year program wins, and the opportunity pipeline is still a healthy $3 billion. Operating income for the segment was $151 million, down from prior year as a result of lower tactical revenue. Segment operating margin held strong at 31.1%. As expected, a shift in product mix due to strong revenue growth in public safety caused operating margin to decline from prior year's 32.8%. As Bill mentioned, Tactical Communications operating margin was essentially flat with the prior year on lower revenue, which is really good performance.

Turning now to slide 6 and Integrated Network Solutions, second-quarter revenue increased 3% to $396 million. Solid growth in CapRock of 9% and in Health Care Solutions of 21% was partially offset by a decline in IT Services revenue, primarily from the loss of the Patriot program. This marks the last tough compare related to the loss of Patriot. CapRock revenue was higher in all three markets -- energy, maritime, and government -- with the majority of revenue growth in the energy and maritime. Segment orders were up 11%. In CapRock, orders were up 21%, with strength across energy, maritime, and government. Key orders at CapRock included a contract extension, expanding a recent large and strategic win in the maritime market with Royal Caribbean; and in energy, with wins at Baker, Hughes, and Anadarko.

As a result of CapRock's joint initiative with RF Communications, we received from a country in Europe our first win for a new service, an end-to-end commercial UHF tactical satellite solution. The same service can be provided to other international customers. According to reports, the global government demand for UHF satellite capacity exceeds government-owned supply by over 200%. Over time, we believe this new CapRock service offering could generate an annual revenue in the tens of millions of dollars.

In health care, orders more than doubled over the prior year, driven by continued strength in the government market, as well as a pick-up in new awards in the commercial area. We had four awards totaling $20 million from large enterprise health care providers for our clinical integration solution, hosting services, and health information exchange capability. In integrated network solutions segment, operating income was $32 million, compared with GAAP operating income of $20 million in the prior year, and non-GAAP of $29 million. Non-GAAP segment operating margin in the quarter increased from 7.6% in the prior year to 8.2%, mainly as a result of improved operating performance in CapRock, and operating income in IT services holding flat on lower sales. Health care operating loss was slightly lower than the prior year, and compared to our first quarter.

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Moving to slide 7, revenue in Government Communications was $439 million, increasing 4% over the prior year. Year over year revenue increases from the GOZAR weather program, the space network ground segment sustainment program, and classified programs, were partially offset by continued slower spending by the Department of Defense. Operating income was $66 million, compared with $63 million in the prior year; and operating margin was a strong 14.9%, as a result of excellent execution and award fees, favorable program product mix, and a favorable CAS 403 settlement. Key wins in the quarter included awards totaling $242 million from several classified customers, and Harris' selection as one of 20 prime contractors to compete for work under the five-year, $10-billion G-tax IDIQ contract. Turning to discontinued operations, we expect to close the sale of broadcast in early February, and we have a signed agreement for the sale of the cyber data center.

Turning to slide 8, free cash flow was $120 million, versus $159 million last year, with operating cash flow of $159 million, compared to $199 million in the prior year; and capital expenditures of $39 million, compared to $41 million in the prior year. During the quarter, we re-purchased 1.022 million shares of our common stock at an average per share price of $48.91. This is in line with our planned $200 million in share re-purchases from the free cash flow for the year, and we continue to plan to purchase an additional $200 million in shares upon the successful conclusion of the broadcast sale. Our effective tax rate for the quarter was 30.8%, and favorably impacted by tax settlements.

Moving to slide 9, as Bill explained, we're updating our guidance range to reflect expected slower spending as a result of greater budget uncertainty, and the sequestration-like environment we currently find ourselves in. For total Harris, revenues now is expected to be down 2% to 4%, and EPS in the range of $5 to $5.20, with lower expected revenue in Tactical and IT Services, partially offset by higher operating margin in Government Communications Systems, continued cost reductions, and a more favorable tax rate. In RF Communications, US budget uncertainty and a delayed international order caused by a longer-than-expected FMS approval cycle has caused us to reduce our revenue guidance from 3% to 4% lower to 7% to 9% lower. As a result of continued focus on operational excellence and further cost reductions, we expect to hold operating margin at 30%, the low end of previous expectations.

In Integrated Network Solutions, we've lowered our revenue guidance from 4% to 5% growth to a decline of zero to 1%, to reflect further weakness in IT Services, which is now expected to be down 10% to 14%, around 2% to 4% down excluding the Patriot program. Margin expectations are now 9% to 10% for the segment. In Government Communications Systems we expect revenue to grow 1% to 2%, compared to previous expectations of 2% to 3%, as a result of continued excellent program execution, and continued favorable program product mix. We expect margin to be higher, at around 14.5%.

We now expect our tax rate for fiscal year to decline from 33%, which already included the R&D tax credit, to 32%, as a result of favorable US and international tax settlements. The R&D investment tax credit expected benefit in 3Q is roughly $7 million; and in Q4, roughly $1 million. In looking at the back half of our fiscal year, as a result of greater budget uncertainty and the expected timing of international orders, our expectation is now for 3Q earnings per share to be in line with 2Q '13. We continue to scrutinize capital spending and are being conservative on cash deployment. CapEx for the first half of the year was $83 million, $40 million lower than in the first half of the prior year. Our revised guidance for CapEx is now $200 million to $210 million. We expect to generate another year of strong free cash flow in a range of $590 million to $650 million. With that, let me turn it back to Bill.

Bill Brown - *Harris Corporation - President, CEO*

Okay. Well thank you, Gary. We remain hopeful that sequestration and budget uncertainty are soon resolved, and we have more clarity -- not only on the current GFY '13 budget, but some indication of the GFY '14 budget, and the direction and priorities over the next several years. We believe the guidance provided captures the challenging budget environment for the back half of fiscal '13 as we now see it, and we stand ready to adjust our cost structure as appropriate for fiscal '14, once there is more clarity on the extent of expected budget reductions. As I mentioned at our analyst meeting last June, we said we would address the possibility of sequestration and government budget uncertainty by focusing on the things we control, such as executing in our core businesses and exiting what is non-core, integrating recent acquisitions, driving operational excellence, and lowering costs while investing in the future through increased R&D. We're making good progress in all of these areas. We're growing share with core customers like the FAA, recently winning two large next-gen programs, and with our classified customers, where orders and revenue continue to climb as a result of our unique capabilities. We've focused our portfolio and are close to the end on broadcast and cyber.

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We're integrating, growing, and improving our performance on our recent acquisitions, CapRock, health care, and public safety, with each showing solid growth and margin performance in the first half, results which indicate we're well on our way to making these growth initiatives a valuable part of Harris. We're increasing our international market presence by capturing synergies and convergence opportunities like between Tactical and Public Safety in Trinidad and Tobago, Brazil, and Mexico; and between Tactical and CapRock with the UHF satellite service that CapRock is now offering to international Falcon users. We're stepping up our game on operational excellence, and we're tracking well above our $75-million productivity target for the year. At the same time we're investing more in R&D, recently launching a number of new products, including AppStar, InTouch, NightLight, Recon, Seeker, the 700- and 800-megahertz versions of XG25, and a ruggedized tablet computer. We've reduced our capital intensity, with CapEx down about 30% in the first half, allowing us to maintain strong free cash flow.

We're deploying capital in a shareholder-friendly way, and we've raised our dividend twice in the last 12 months. Now we've rounded out our leadership team with a new head of Integrated Network Solutions and a new head of Health Care. We're making good progress. I'm confident in our strategy, and I'm optimistic about the long-term potential of the Company as we address the fiscal challenges we've been anticipating for some time. We have a terrific team working very hard and executing exceptionally well in a difficult environment. With that, I would like to ask the operator to now open the line for questions.

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we are ready to open the lines up for your questions.

(Operator Instructions)

Your first question comes from the line of Carter Copeland with Barclays. Please proceed.

Carter Copeland - *Barclays Capital - Analyst*

A big picture question for you, Bill, and then I want to kind of go off your comments you made right there at the end about being optimistic about the longer-term outlook for the Company. I wondered if you might speak to the longer-term -- let's call it three- to five-year outlook -- for INS. Not in terms of the formal targets, but what you see for the pieces of that business in terms of returns on capital or margins, or however you like to think about it, but where you see that business ultimately -- the pieces of that business ultimately heading sort of three to five years out, if you can?

Bill Brown - *Harris Corporation - President, CEO*

Sure. It's a very good question. As you know, INS is composed of a variety of businesses that we're just still in the mode of integrating, and I think we're performing very well. CapRock -- I'm very proud of what they've done. They're growing at very high single-digit rates. The margins are coming up pretty nicely, and I still think we're in the early stages of integration, and I'm very optimistic about the long-term potential in that business. We talked about the three pieces that we compete in -- energy, maritime, and government -- and gee, I think we're very well positioned in each. We're a market leader in energy, and that's growing nicely. We're growing our share in maritime with the win with Royal Caribbean, and you could imagine that there's more wins that are going to come down the path in that business. I think we're holding our own, if not gaining a little bit of share on the government side. Longer term, I feel very good about CapRock. To me, that's sort of a mid- to maybe high-teens margin business, but that's going to take us some time to get there, but boy, I'm pretty optimistic about where we're going in CapRock.

The healthcare business, we've performed very well on the government side. We've grown dramatically. We acquired Carefx, we're integrating it, we're turning it around. As you know we lost a lot of money in that business last year. We expect to be profitable in healthcare in fiscal '13. I think we're making very good progress in that direction. We have reaffirmed today we will be profitable in healthcare for the full year. Over time, I see

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that business growing very nicely. That also could be a mid-teens type of business over time, once we look at how Carefx and the software suite really takes hold in the market place. We've got a big event coming up at the end of February where we release a new version of the software. I think the back half of our year hinges on that, but I feel pretty good about our prospects longer term in healthcare.

In IT services, we've been very well positioned -- strong double-digit margin, based on a particular contract we have with the government. As you know, that contract is being re-bid. I think we're well positioned on that contract. It will be awarded probably sometime in the back half of our year. It is really uncertain as to exactly when. But the reality is, that business, which has been a double-digit margin business, is going to come down in margins. It will be mid- to high-single digit, we expect that. Based on all of that, we see the margins in INS continuing to improve. You saw today we've narrowed the range to 9% to 10% of margin in that particular business, and that's a double-digit-margin business going longer term.

Operator

Your next question comes from the line of Joe Nadol with JPMorgan. Please proceed.

Joseph Nadol - *JPMorgan Chase & Co. - Analyst*

I would like to focus in on the RF -- the Tactical Communications business internationally, if you could. I heard what you said in the comments about one $50-million opportunity maybe flipping out. I was just wondering if you could characterize the overall international business. Ex that one booking, are things tracking the way you expected six months ago, or is there any other changes one way or the other? Then last quarter, you characterized the business as having lots of small orders, but no big ones. Are there any larger fish that are starting to come into the -- your profile?

Bill Brown - *Harris Corporation - President, CEO*

It is a good series of questions, and let me sort of take it from a high point and then come back to specifically what happened in the quarter -- why we adjusted the year for international. As Gary mentioned, we have a pretty robust pipeline in international, $2.4 billion. It is still, as I said last time, it is in the tens of millions, not hundreds of millions of dollars over time. We don't see any gigantic one-off opportunities like we saw with Australia, but we see in series lots of good opportunities in a variety of countries around the world.

The Middle East remains, I think, still pretty robust. Iraq remains pretty strong. UAE, Saudi, Jordan, all look very good for us over time, as does northern Africa. That's been a pretty good market for us, and I think it remains to be important going forward. Central Asia -- the countries in central Asia that we're referring to have very strong potential. The political climate continues to improve. Brazil and Mexico are very promising. We're winning orders in Brazil. We feel very good about our prospects there. We've won some orders in Europe that we talked about today and had some releases on very recently. So I think overall, the pipeline looks robust. We feel very good about that.

As you recall, Joe, our fiscal '12 was very strong in international. We had very strong double-digit orders and revenue growth in international tactical radios. It remains a lumpy business, but we're still feeling pretty good about fiscal '13 and beyond. Now what happened just in the last 30, 60 days in international -- as Gary mentioned, we had a pretty large order for $50 million, that just moved out. The FMS process for this particular country is taking a little bit longer than we had thought 30 to 60 days ago. We're seeing the State Department and the DoD wanting to spend a bit more time scrutinizing exactly how the FMS funds are being spent within this country. That is different than what has happened in the past, so we're going through a bit of a transition. The orders we booked in Q2 and a little bit in Q3, which totaled $42 million for this particular country; we're well in the process. They're long-term orders, and we've been working that for quite some time. The $50 million follows on that, and longer-term, we see the opportunity to be something like $400 million. So this is a very big opportunity. It is a timing issue. It moved out of the year. It just didn't move out of the opportunities set forth for Harris Corporation.

A couple of other things moved around. We saw some ins and outs in the Middle East. We are seeing, as Iraq converts from an FMS process to commercial terms, it is taking a bit longer than we expected, but no big movers in or out, other than the one I'm referring to as the $50 million. We still feel pretty good about our prospects long term in international, Joe. Thank you.

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Operator

The next question comes from the line of Yair Reiner with Oppenheimer. Please proceed.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Thank you. I was wondering whether the new guidance now fully reflects the potential for sequestration. And if not, how you would size the incremental down-side risk to your targets, if sequestration does in fact kick in. I guess as a follow-on to that, I got the impression from your comments that most of the headwinds you're feeling right now are in the tactical realm. Just wondering how you see sequestration potentially impacting the government communications side of the business as well? Thank you.

Bill Brown - *Harris Corporation - President, CEO*

You're right. We are seeing most of the headwind in tactical radios. Our government business remains relatively resilient. It is a longer-cycle business. There's pieces of that. As you saw, we trued up our growth guidance for the year. There's pieces of that that are being impacted, but not anywhere near like we're seeing in IT Services, and of course more importantly in tactical radios.

Stepping back, we have been saying for quite some time that sequestration is not in our guidance. It has always been our biggest risk for the fiscal year. It has been driving a lot of uncertainty for us and for other peers in the defense space. The new guidance that we now give assumes that the continued budget uncertainty and this threat of sequestration that still hangs over our heads is dramatically slowing DoD procurement, and that's going to continue until we see some sort of budget clarity, something that's achieved in our US government. Customers, we see they're clearly acting as if sequestration has been triggered, and we reflected that changing behavior of our government customers into our guidance. With the difficulty in forecasting, there is still a lot of uncertainty. We've left a pretty wide range of guidance to reflect the uncertainty. We think the bottom end is pretty well covered, unless there is very severe draconian cuts that go beyond what we've heard in the press about sequestration.

As I step back and look at the impact of sequestration on our business, to the extent that sequestration is triggered -- and the DoD is given some freedom to make surgical cuts, as opposed to peanut butter cuts, and I think there has been some evolving support in Congress for making that happen -- that actually could work to our advantage, since the products that we have in our portfolio seem to be pretty well aligned with what we understand to be the stated priorities of the DoD -- that's C4ISR, the network battlefield, special operations -- and we think that it will ultimately work in our favor. That's basically where we stand today. We are reflecting in our guidance the uncertainty we're experiencing. We will come back and revisit that to the extent the situation changes as it continues to evolve.

Operator

The next question comes from the line of Peter Skibitski with Drexel Hamilton. Please proceed.

Peter Skibitski - *Drexel Hamilton - Analyst*

Bill, just to put a cap on that, the bottom end of your guidance reflects what you see as the impact of sequestration, if it's sort of a peanut butter approach to sequestration?

Bill Brown - *Harris Corporation - President, CEO*

As I said, look, we think we've been pretty conservative on the bottom end. We've thought very long and hard about that. We've looked very hard in particular at the tactical radio business. We've got a great team in our tactical radio business. As Gary went through some of the details, and shared with you some of the orders that are in the proposal and closure stage, we know we've got pretty high probability of winning those jobs.

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We track them very aggressively. I think we've taken a relatively conservative look at what we see to be what is happening in the government. But our crystal ball is still as cloudy as anybody else's.

Our job here is to drive wins with our government customers, execute flawlessly, adjust our cost structure where it is smart and makes sense, and protect ourselves on the bottom end. That's what we've tried to do. As I said, to the extent that what is evolving in the government over the next two, three, four months changes from a pretty draconian state that we're seeing today, we will come back and revisit our guidance. But right now we think our bottom end pretty well covers our situation.

Operator

Your next question comes from Noah Poponak with Goldman Sachs. Please proceed.

Noah Poponak - *Goldman Sachs - Analyst*

A two-part question on RF. I know you're saying the outlook is cloudy and there's not a lot of visibility, but you've also provided a decent amount of color on the behavior you're seeing in the US and the opportunities internationally. Can you tell us if you expect new order book-to-bill to be below or above 1 in the back half, just to help us formulate the beyond 2013 growth picture? Then on the segment margin guidance change there, is that just absorption on the lower revenue outlook, or is there something else going on in terms of change in the behavior or terms of the contract with the customer on the margin side?

Bill Brown - *Harris Corporation - President, CEO*

Good questions, Noah, thank you. I think for the year we're still expecting our book-to-bill for tactical to be at or higher than 1. You should take it as reassuring that that may be, because we dropped our revenue. We said it would be about 1 or higher than 1 last time, and we're still at the same position today. The tightening down of our margin range is due to volume. There's no big change on customer behavior or extraordinary pressure on pricing. It is really volume-related. We work very hard to take cost out and still allow us to invest aggressively in both the public safety, as well as in tactical communications R&D. That's a lot of conversation within the Management team. It is a lot of conversation with our Board. Our Board fully supports us investing in this business for the long term, and that's where we're going to continue to do. That's what's the basis of the tightening down of the bottom end of the range on margin.

Operator

Your next question comes from the line of Justin Amero with Cowen and Company. Please proceed.

Justin Amero - *Cowen and Company - Analyst*

Hi, good morning. Do you have any updates on the HMS Manpack radio, when it might be -- the next award might be placed, or how large you expect it to be?

Bill Brown - *Harris Corporation - President, CEO*

Well, the HMS -- the Manpack itself -- the RFI was out late November. We expect the RP to come out some time in the February or March time frame, although that is still a little bit uncertain, but probably in the next couple of months. We still expect the award some time in the late spring -- May, June time frame -- and deliveries occurring probably some time in the spring of 2014. That is the best that we know today. Again, it is pretty fluid. The budget is being set or reset, and obviously we have no color on GFY '14 yet. But that's the best intelligence we have today.

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Client Id: 77

Operator

The next question comes from the line of Yair Reiner are Oppenheimer. Please proceed.

Yair Reiner - *Oppenheimer & Co. - Analyst*

Yes, I was wondering about the inter-company sales in the quarter; they were a bit higher than usual. What drove that, and which segment did that benefit in terms of sales?

Gary McArthur - *Harris Corp - SVP & CFO*

It was actually between our RF Communications and Harris IT Services group, as well as between Harris IT Services and our Government Systems group. So a little higher in the quarter, good cooperation between the teams, but nothing specific to take from that as a go-forward look. I think it was just unusually high in the quarter.

Operator

Your follow-up question comes from the line of Joe Nadol with JPMorgan. Please proceed.

Joseph Nadol - *JPMorgan Chase & Co. - Analyst*

Thanks. Bill, you've now been in the seat for a year, and it has been a pretty busy year -- raised the dividend twice, and buying back a lot of stock; and divested broadcast, or divesting broadcast; cutting costs; integrating businesses in INS. We know about all of that stuff. I'm wondering what's next, and if you can help characterize -- I don't expect you to slow down the pace here. What should we think about when we think of calendar year 2013 that -- what areas are you going to look out for real strategic focus?

Bill Brown - *Harris Corporation - President, CEO*

Well, I'm spending a lot more time today, Joe, on our R&D investments and our R&D portfolio. As you know, I'm somewhat new to the business and the technology. I'm here for a year and a couple of months. It feels like it is a day, but it is a year and a couple of months. We've got a lot of interesting technology that we work on. As I said before on this call and I think at the investor meeting, we have historically developed our R&D plans segment by segment, but haven't really done an integrated look across the Company. I'm spending a lot more of my time on that, because I do think there's opportunities as we increase our investments in R&D to make sure we're spending on the right spots and we're making sure we're leveraging technology across the franchise, as opposed to optimizing it within each individual segment. So I'm spending a lot of time on R&D. I do think that that's going to be important and essential to the future of our Company. Spending a lot of my time on integration activities. We're not through that yet. I think there is more work that we need to do, so I'm spending some time there.

Eventually, we're going to come back and talk about how we grow our top line, how we grow our franchise through M&A. We're not there yet. In the environment that we're in today, it is pretty cloudy. It is hard to come and go to our Board and say we would like to buy company X, Y, or Z, and be articulate in the financial expectations, just given the cloudy environment. That is going to rise at some point in time. It will get clearer. When it does, I think we've got a good balance sheet, as we put BCD behind us and cyber behind us, I think we've got a strong enough balance sheet to start to step out a little bit on M&A. Part of our confidence in being able to do that is developing very strong integration skills internally, convincing our Board we know how to integrate companies, convincing our shareholders we know how to integrate companies. Once we do that, we will step out and do some M&A. Not today, but that's going to come over time. Thank you, Joe, that's a good question. Thank you.

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Client Id: 77

Pamela Padgett - *Harris Corp - VP, IR*

Operator, I think we have one more question in the queue.

Operator

Your next question comes from the line of Peter Skibitski with Drexel Hamilton. Please proceed.

Peter Skibitski - *Drexel Hamilton - Analyst*

Thanks. Bill, book-to-bill at public safety has been under 1 for a number of quarters now. Has the sales outlook there dimmed at all?

Gary McArthur - *Harris Corp - SVP & CFO*

This is Gary, Peter. No, it really hasn't. We still see some really good opportunities. It has been a lumpy business with regards to orders. In looking at the pipeline, there's San Francisco Mass Transit Authority, there's Chester, PA. There's goods opportunity. So it's more related to timing of some of these orders and the lumpiness than less opportunities to go forward.

Bill Brown - *Harris Corporation - President, CEO*

Let me add on that. I think the first half, we were -- public safety grew at double-digit rates. We're guiding on the full year now to be sort of high-single, mid-to-high single-digit rates in PSBC. That will imply the back half is going to slow down a little bit. You have very good backlog. That backlog is rolling through. We expect to see more orders coming in the back half. But long term, our confidence in public safety remains as it was before. We do see good long-term growth opportunities there, as well as margin expansion.

Pamela Padgett - *Harris Corp - VP, IR*

Okay. Operator, I think we have -- Noah, you've queued up again. If you have another question.

Operator

The next question comes from the line of Noah Poponak with Goldman Sachs. Please proceed.

Noah Poponak - *Goldman Sachs - Analyst*

Hi, thanks. I just had a few, if that's okay.

Pamela Padgett - *Harris Corp - VP, IR*

Sure.

Noah Poponak - *Goldman Sachs - Analyst*

The re-compete -- the IT Services re-compete that you mentioned in INS -- just a few thoughts or clarifications there. Is it the back half of your fiscal year, as in the next six months, or the back half of calendar '13? Then can you maybe talk about sort of how many competitors were there last time,

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Client Id: 77

and how many you expect to be there this time, and sort of how aggressive folks might be coming after that? I don't know if you could also remind us how large that is for you, as well.

Bill Brown - *Harris Corporation - President, CEO*

Okay. Well, let me take most of that, and maybe Gary can augment whatever I'm missing. It's -- the re-compete I'm talking about is NGEN, it's the re-compete for the NMCI contract. We had submitted our bid back in August, early August of 2012, so it has been out there for some time. We expect the award, we've heard in March, but every indication is that it is going to be some time after March. It has no impact on our fiscal '13, so there won't be any transition through June. I think our contract with NMCI was extended through September, as I understand it, so we're good through June and probably through September with the current NMCI contract as it stands today.

There is -- what the government looked for is two bids here. They looked for a transport plus an enterprise bid, and we're in partnership with CSC -- as you know, we are the incumbent working with HP on the transport side -- and then a combined bid. My understanding is that HP has bid a combined offering. They did not bid it in pieces, transport versus enterprise. My understanding is we're the only ones that have done that. I'm not sure how aggressively others have come at it. I think it is us with CSC and HP that are in, but there could be others. But it is going to be a pretty aggressive contract. That's why we know NMCI margins as they stand today will come down.

We're optimistic that -- I think we're well positioned, and I think we will end up winning. The size of it -- today, NMCI is worth to us on a fiscal-year basis around $100 million -- between $100 million, $110 million, in that size range. The way we understand it, NGEN could be around $125 million to $150 million a year, so it's a little bit bigger on a per-year basis at lower margin. I think, Gary, those are the major points.

Gary McArthur - *Harris Corp - SVP & CFO*

Yes, you hit them all, Bill.

Bill Brown - *Harris Corporation - President, CEO*

Okay, good.

Pamela Padgett - *Harris Corp - VP, IR*

Okay, operator. I think we have one more question.

Operator

Your next question comes from the line of Chris Quilty with Raymond James. Please proceed.

Chris Quilty - *Raymond James & Associates - Analyst*

Thanks. One more follow-up on the tactical radio business. I think there's two other meaningful contracts on the horizon, the MNVR and the SRW applique. Can you give us an update on the timing of those contract awards, and where you can, where you think you fit competitively, either on the product offering or pricing strategies? I guess as a second question, the status of the two-channel radio integration for the Manpack?

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Client Id: 77

Bill Brown - *Harris Corporation - President, CEO*

Okay. Well, let me take the MNVR and maybe Gary can take the SRW. On the MNVR, we submitted a proposal for MNVR back in October of last year. A product is in testing today. We expect an award in the May time frame. Again, it could shift out a little bit. Our best guess today is a May award. Delivery, we understand to be again sometime in early spring of 2014, so around April, May time frame, of 2014. There's an initial part of MNVR, we think it is about 2,500 radios. The overall size of the contract will be $140 million, $150 million, plus or minus. To the best of our knowledge, we have GE as a competitor in there, we think Northrop with Exelis is in; we think BAE may have something in the fight. I don't know where Raytheon is with Maingate, but I actually think we're very well positioned on MNVR, and I'm very optimistic that we're going to prevail and win MNVR. Maybe Gary can say a couple of words on SRW?

Gary McArthur - *Harris Corp - SVP & CFO*

On the SRW applique, Chris, there was an RFP out in October. Expectations are awarded kind of any time here, in this time frame -- February, looking for a March delivery. Not a big impact to our fiscal year, kind of less than $10 million in the fiscal year from that application.

Bill Brown - *Harris Corporation - President, CEO*

On the Manpack, look, the RFP is not out yet, so -- but I will assure you, we will have an offering that is going to be very competitive. It is going to meet the specification, and we're going to go after that very aggressively. I think I'm pretty confident around what's going to happen with the Manpack. We will have an offering that meets the spec. Chris, thank you.

Pamela Padgett - *Harris Corp - VP, IR*

All right, with that, we will wrap it up. I thank everyone for joining us today.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect, and have a great day.

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