OVERVIEW:

Co. reported 1Q15 EPS of $1.18. Expects FY15 revenue to decline 1-3% and diluted EPS to be $4.75-5.00.
CORPORATE PARTICIPANTS
Pamela Padgett Harris Corporation - VP of IR
Bill Brown Harris Corporation - Chairman & CEO
Mick Lopez Harris Corporation - SVP & CFO

CONFERENCE CALL PARTICIPANTS
Gautam Khanna Cowen and Company - Analyst
Joe Nadol JPMorgan - Analyst
Carter Copeland Barclays Capital - Analyst
Pete Skibitski Drexel Hamilton - Analyst
Chris Quilty Raymond James & Associates, Inc. - Analyst
Josh Sullivan Sterne, Agee & Leach - Analyst

PRESENTATION
Operator
Good day, ladies and gentlemen, and welcome to the Harris Corporation's first-quarter 2015 earnings call.

(Operator Instructions)

I would now like to introduce your host for today's conference, Pamela Padgett, Vice President of Investor Relations. Ma'am, you may begin.

Pamela Padgett - Harris Corporation - VP of IR
Thank you. Good morning, everyone, and welcome to our first-quarter FY15 earnings call. I'm Pamela Padgett, and on the call today is the Bill Brown, Chairman and CEO, and Mick Lopez, Senior Vice President and Chief Financial Officer. And 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 discussions 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 website, which is www.harris.com. Replay of this call also be available on the Investor Relations section of our website.

And with that, Bill, I turn it over to you.
Bill Brown - Harris Corporation - Chairman & CEO

Okay. Thank you, Pam, and good morning, everybody. We begin our fiscal year posting strong revenue and orders growth in Government Communications Systems and in RF Communications international tactical radio business. Operating performance was solid as we continued to benefit from lower costs and good execution.

Turning to slides 3 and 4 of the presentation, earnings per share was $1.18, flat with the prior year and favorably impacted by $0.06 from a lower tax rate in the quarter. Operational earnings came in as expected. Revenue was down 3%, with continued strong growth in Government Communications Systems and in International Tactical Radios, more than offset by continued weakness in the US tactical radio market and declining IT services revenue, primarily due to the wind down of two major programs.

We’ve remained focused on expanding outside the US, and in the first quarter, international revenue was up 15% to 31% of total revenue, trending favorably compared to 30% of total revenue for all of FY14. While our focus on operational excellence is reading through to margins and earnings, some of the savings is being reinvested in R&D to drive future growth. Company funded R&D was up 5%, to 5.4% of total revenue, with essentially all of the increase in Tactical Radio.

Orders in the quarter were $1.11 billion, and book to bill was 0.96. Orders were down 7% year over year, primarily due to a decline in IT services. Sequentially, orders were up 3% in the quarter.

Turning to a few segment highlights, and I’ll begin with Government Communications Systems, which had an excellent start to the year, with revenue, orders, and operating income all up significantly over the prior year. This is the fourth consecutive quarter of positive year over year growth for GCS.

Customer diversification and leveraging are strong franchises in space, avionics, air traffic management, geospatial imagery, and weather are creating new opportunities and producing excellent results in a tough government spending environment. For several quarters we’ve highlighted the F-35 program as a revenue driver, a trend we expect to continue for a number of years as the program continues to ramp and as we look for opportunities to increase scope.

So let me give you a little color on the role that we play. Harris leveraged its track record of success on the F/A-18 and F-22 platforms into a larger role on the F-35 program, providing mission electronics, fiber-optic networks, and power supplies. We also supplied the antenna and interface unit for the multi-function advanced datalink, or MADL, providing stealth communications between F-35 aircraft.

Following fourth-quarter contract wins of $78 million for the F-35, in the first quarter, we received another $22 million, pushing contract awards to date to over $800 million. Under the current scope, total contract value could reach $4.5 billion over the life of the program, and we’ve identified another $1.5 billion of opportunity for additional scope, including next-generation processors and expanded communications capabilities.

I’ll also mentioned that in GCS, our classified business continues to grow, and in Q1, we booked orders against a previously announced large win in geospatial imagery. The $770-million foundational geospatial content management contractor, FGCM, with the NGA. At the time of the announcement, there was a protest outstanding, which we’re happy to report was denied.

Now, turning to RF Communications, international tactical radio revenue end orders were significantly higher than in the prior year. As we indicated last quarter, opportunities in Iraq were firming up, and we booked two orders, totaling $99 million, adding to the $15 million booked in the fourth quarter.

These three orders were for multiple end users and are part of a broad set of requirements across the MOD and MOI, including various defense services and a number of national security organizations. And we continue to see a large opportunities in Iraq in our 12- to 18-month pipeline and beyond, building upon our decade-long track record in that market.

International opportunities such as Iraq tend to be multi-year, multi-phase modernizations where customers typically standardize on an established technology like the Falcon III family of radios, like we’re seeing in a country in Asia, where we booked in $18-million order in the quarter, bringing...
orders to date to $200 million, and in the Philippines where we booked in $18-million order in Q1 following a $14-million order booked in Q4. In Canada, Harris was awarded a four-year, CAD180-million single award IDIQ contract for Falcon III Radio in support of several modernization efforts within the Canadian forces, including special operations. Canada has been a large user of Falcon II radios and a long-standing partner for 20 years.

I'm pleased that the international 12- to 18-month pipeline remains strong at $2.5 billion, replenishing quickly following another excellent quarter of orders and revenue growth, pointing to continued progress on multi-year opportunities. In times of global conflict, our tactical radio business has historically benefited, and we're beginning to see that in the quality of opportunities both within and beyond our pipeline.

Security concerns in the Middle East have no doubt heightened, and the situation in the Ukraine remains a significant concern, especially for Europe, where we've seen opportunities increased a bit in size for Poland and for the Baltic and Scandinavian countries as well as for Ukraine. Coalition actions could also add to our opportunity list because of the need for interoperability. Since our radios have a broad installed base around the world, we're well positioned to meet that requirement.

In the Middle East, opportunities are not just within one or two countries, but are broad, with major opportunities in at least five countries and smaller but significant ones in a handful of others. And our Middle East customers, in the face of heightened security issues, are relooking at requirements to ensure their forces are adequately equipped with the right command, control, and communications equipment. And typically in these countries, we're considered a preferred supplier.

In the US tactical radio market, budget constraints, and procurement delays continue to result in weak revenue and orders. The issue is not demand, as customer requirements are real, and they're significant.

Our DoD pipeline remains roughly at about $1 billion and includes both modernization plants across the services as well as typical resets, upgrades, replacements, spares, and support. What's holding back the market is the uncertainty caused by the overhang of no government FY15 budget and the worry of sequestration on the horizon in 2016. We believe spending should improve once a 2015 budget is passed.

We're confident that US tactical radio modernizations will move forward, and all the services are committed to it, including the Army, whose modernization alone is a multi-billion-dollar opportunity. The Marines have standardize on Falcon technology and are steadily upgrading, and SOCOM released in October an RFP for the multi-channel hand-held portion of a $500-million modernization effort called SOCOM Tactical Communications, or STC, program. STC encompasses a family of radios, the multi-channel hand-held, the multi-channel man pack, and an HF wideband radio, and is expected to have multiple suppliers, and we fully expect to be one of them.

As our results today and over the last several quarters indicate, we're investing to win, and we're demonstrating our readiness to deliver now. Following NSA certification, our new multi-channel man pack received its official nomenclature, the AN/PRC-158, a sign of customer endorsement and intent to procure.

We've now booked orders with three different DoD customers outside of the Army, and we expect shipments to begin this quarter. Relative to the Army program of record, our PRC-158 man pack offers size, weight, and power advantages and doesn't require add-on appliques to operate over the Mule satellite system.

The Team also uniquely designed an expansion slot into the radio so the customer can tailor capability to the specific mission requirement. A customer might choose to integrate an ISR feature, such as access to direct UAV video downlinks, or add third-party modules for specialized ISR applications, with add commercial Satcom access.

My point is that radios are not designed just to meet the spec. Instead, we developed radios to meet the needs of the soldier with capabilities that often times go beyond the spec. And were doing the same thing with our wideband rifleman team radio.

To provide ourselves with an independent and real user view, the radio was tested by the Network Battle Lab for Experimentation at the Cyber Center of Excellence, and soldiers from the 15th Regimental Signal Brigade. The results validated the radio's superior transmission range, shorter...
time to form a network from a cold start, and ease of use due to our unique dashboard display, which simplifies mission planning and monitoring of network connectivity. Both radios will compete in the Army’s upcoming man pack and rifleman radio procurements.

And we continue to make great progress on the previously won mid-tier vehicular radio program called MNVR. Government integration testing for the MNVR radio started in mid October and is a key milestone for the radio. Preliminary results leading up to the testing were very positive, demonstrating the ability to quickly form WNW and SRW networks.

For both networks, the radios met data throughput requirements, even while exceeding range requirements. And in the spring, the limited user test will be at the focal point of NIE 15.2, which we hope results in a Milestone C decision to initiate full rate production and begin deliveries in FY16.

And as I mentioned in the last call, we’re developing a Mules upgrade solution to port into already fielded 117G radios, some 30,000 of them, adding significant value to our customers’ existing inventory. This upgrade market is anticipated to be significant, with opportunities beginning in late FY15.

And before leaving RF Communications, I’ll touch on public safety. The public safety market remains weak and is estimated to be down below double digits for the year-to-date calendar 2014.

While local government budgets have improved, and more than half of the market is still analog, it eventually will be upgraded to the P25 digital standard, customers have been slow to move forward. We believe the wind down from rebanding and narrow banding and some hesitancy in the front of the (inaudible) rollout of LTE is weighing on the market.

As we also see the market becoming increasingly more competitive, we’re continuing to work on what we control, our cost structure, our product lineup, and the effectiveness of our sales and marketing activities to improve our competitive position. And then finally, in Integrated Network Solutions, revenue was weak, as expected, for the segment, but Commercial CapRock and Healthcare results were once again encouraging, with both businesses posting revenue growth in the high single digits. So with that, I’ll turn it over to Mick to comment on segment results and guidance.

Mick Lopez - Harris Corporation - SVP & CFO

Thank you, Bill, and good morning to everyone. Moving to segment results on slide 5, RF Communications revenue was $387 million, compared to $423 million in the prior year. Segment orders were $374 million, up 7% compared to last year. Book to bill was 0.97.

Tactical Communications revenue was $276 million and declined 9%, while orders were $288 million, up 28% compared to the prior year. We experienced strong revenue and orders growth in international, but the US market remained weak. Book to bill for Tactical was 1.04, and sequentially, funded backlog was up modestly from 4Q's $564 million, to $575 million this quarter.

In Public Safety, weakness in the state and local market continued. Revenue was $111 million, down 6% compared to the prior year. Orders were $86 million, compared to $123 million in the prior year. Operating income for the RF Communications segment was $117 million, and operating margin was 30.1%.

Let's turn to Government Communications Systems segment on slide 6. First-quarter revenue was $461 million, increasing 12%, compared to $412 million in the prior year. Higher revenue from classified customers, commercially-hosted payload programs, the F-35 program, and the FAA’s NexGen DataComm program was partially offset by lower revenue from NASA’s Space Network Ground Segment Sustainment program.

Segment operating income was $74 million, and operating margin was 16%, reflecting manufacturing efficiencies in the space area and strong program performance across the segment. During the quarter, Harris was awarded a five-year $495-million ceiling multi-vendor IDIQ contract from the US Air Force for the Hosted Payload Solutions program and awards totaling $83 million from classified customers.
Turning to Integrated Network Solutions segments on slide 7, first-quarter revenue was $326 million, down 13% compared to the prior year. Revenue growth in Commercial CapRock and Healthcare was more than offset by a revenue decline in the government market. Declining revenue in IT services was primarily due to the roll off of the and NMCI contract and the decision to no longer sell pass-through products on another contract, and to a lesser extent, from continued market weakness.

Segment operating income was $23 million, compared to $30 million last year. Operating margin was 7.1%, compared to 7.9% in the prior year, as operating performance improvements at CapRock and Healthcare were more than offset by the roll off of the highly profitable and NMCI contract.

In Healthcare, the news was encouraging. The Team released the latest version of the FusionFX software solution, incorporating new features and interface enhancements, such as graphical chart displays, multi-browser support, and automation improvements.

We got several new wins in Healthcare, including a contract from Phoebe Putney Health System for a provider portal solution linking physicians and other clinicians throughout one of George’s largest health systems. We won two international contract awards, one from Telus Health in Canada, and one from National Health Service-East Kent in the United Kingdom. Our software is now deployed at 50 hospitals, and the number of users over the last quarter as grown from 50,000 to 75,000.

Let’s turn to slide 8. The Company generated free cash flow of $46 million, compared to $166 million in the prior year. CapEx was $41 million, compared to $33 million last year. We continue to expect free cash flow for the fiscal year of about 100% of net income, with CapEx of about $200 million.

We remain confident in our ability to generate strong free cash flow, and in the first quarter, increased our dividend by 12% and use $100 million in cash to repurchase 1.4 million shares. Our effective tax rate was 28.7%, as a result of a foreign tax credit settlement, but we still expect a 32.5% tax rate for the full fiscal year.

Moving to slide number 9. FY15 guidance remains unchanged at a range of $4.75 to $5 per diluted share, and a revenue decline of 1% to 3% compared to the prior year. Also, no changes were made to segment information, which is detailed on this slide.

With that, I’d like to ask the operator to please open the lines for any questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Gautam Khanna, Cowen and Company.

Gautam Khanna - Cowen and Company - Analyst

Yes. Thanks. Good morning. So I just wanted to ask a couple questions. One, could you comment maybe on how the tactical RF orders have trended since the September quarter ended? And then, if you could just give us some flavor of what you expect of the bookings -- what the cadence of RF tactical bookings will be through year, because it looks like you do still have some go-get business to hit the numbers this year.
Bill Brown - Harris Corporation - Chairman & CEO

Yes. I don’t think, Gautam, we can comment on anything that’s happened since the close of the quarter at this point. We will release publicly whatever we believe should be issued in a press release as they get awarded to us, and we’ll continue to do that through the second quarter. I would say we felt pretty good about the start to the year in international, and we were very pleased with the revenue and order growth coming off a very, very strong FY14.

And as I mentioned in my prepared remarks, Gautam, I’m encouraged by the pipeline replenishing itself, to you seeing $2.5 billion, and it’s pretty constant over the last number of quarters. It almost looks like a manufactured number, but, in fact, there’s real opportunities. They’re moving through the pipeline. And the fact that we’ve been booking so healthily, and including in Q1, I’m pretty encouraged by that. And I would say also, in terms of the quality of the opportunities as they’re moving through the pipeline feels pretty good.

On the domestic side, we knew the first half was going to be a bit challenging. We talked about that in the last quarter. We knew we’d have a slow start. We did see some opportunities that we had hoped to book in Q1 slip a little bit to the right. Fact is, we’re operating under a CR. We expect that’ll get resolved towards the end of the calendar year and a budget happening sometime early in next calendar year, as something that happened this past year.

So I think once that happens, money will start to flow, once there’s more certainty on funding lines. So we do expect the back half in the DOD tactical business to be a bit better than the front half. But I think that’s all I can comment on, in terms of the order trajectory as we see it today, Gautam.

Gautam Khanna - Cowen and Company - Analyst

Okay. And you’re still looking for it to be down -- tactical RF, low-single digits, is that right? There was no change to that.

Bill Brown - Harris Corporation - Chairman & CEO

Yes, there’s no change to that. We still see the year down low-single digits. We still see the DOD part down to the low-double digits and at 10% to 12% range. And again, we start out Q1 weaker than that, so it does imply a little bit better performance in the back half. We do see international up low-single digits, and again, we started out a little stronger than that, so perhaps the strength there might offset a little bit of softness in DOD. But, overall, tactical for the year, we still see as being down low-single digits.

Gautam Khanna - Cowen and Company - Analyst

And, can you update us on your buyback plans for the year? I think you’d said $200 million, but you did just over half of that in Q1. What do you expect to do in terms of share buybacks?

Bill Brown - Harris Corporation - Chairman & CEO

Nothing’s changed at this point. We’re still guiding towards $200 million for the year. We tend not to communicate too much on a quarterly pattern here. Last year, we did start off the year as well, with a pretty healthy buyback in the first quarter. We ended up doing more in the year. This year, we did $100 million in Q1 and still guide to $200 million for the year.

Gautam Khanna - Cowen and Company - Analyst

Okay. Thank you. I’ll get back in the queue.
You bet, Guatam.

Operator
Joe Nadol, JPMorgan.

Joe Nadol - JPMorgan - Analyst

Thanks. Good morning. Bill, just on the cash flow, you were a little lighter in the quarter than you've been. You haven't had below $100 million for a while in operating cash flow in a quarter. Just wondering -- it looked like some of it was inventories. Wonder if you could comment on maybe where things were a little weaker in the quarter and where you're looking for a pickup later in the year.

Bill Brown - Harris Corporation - Chairman & CEO

Well, I would say that Mick and I weren't too particularly happy with our start on free cash flow. As you point out, we typically have done better in the first half of the year. Our first half is always a little weak, and Q1 is always the weaker part of the first half, but we were down quite a bit versus last year. We're not pleased with the results. It wasn't in any particular segment; it was really across the segments. And it wasn't so much capital. Capital was up a little bit in the quarter, as we knew it would be.

It was really coming off of working capital. We know we booked a couple of orders a little later in the quarter than we thought, so that didn't get collected, and we built a little bit of inventory. We are going live this quarter on a ERP system up in RF in Rochester, and we wanted to make sure we were protected for that, so there's a bit of inventory there. But we're going to hit 100% of net income for the year, as we're guiding to it. I'm confident in our ability to get there. Now, we know what we need to do, and it will correct itself through the year.

Joe Nadol - JPMorgan - Analyst

Okay. Is it fair to say that in tactical, that -- or even in RF more broadly, that Q2 should look sort of like Q1, and you expect a material pickup going into Q3 and Q4? Or maybe a little help with that the profile would be -- that just because you are under 400 in the quarter, backlog is pretty consistent with where it was, and if we add -- if Q2 looks like Q1, you're at 800 looking for a 1.8 for the year, so any comments there?

Bill Brown - Harris Corporation - Chairman & CEO

We're not going to guide the Q2. We're going to stick to the guidance for the year. What I did say earlier, in fact it's consistent with what we said on the last call, is that the second half's going to be a bit better than first half, and I think a lot of that's going to have to with some budget certainty, which we see happening.

We did see the tactical backlog come up sequentially a little bit, a couple percent, and that's encouraging for us. We do see typically 60% to 70% of our backlog turn in the year. We do see up to 75% of new orders that will book in the year to convert to revenue within the year. That's spot on to what we did in FY14, and we see FY15 playing out the pretty much the same way.

Joe Nadol - JPMorgan - Analyst

Okay. And then, just one more. Any thoughts -- I haven't thrown this one at you in a little while, but any thoughts on capital deployment outside of the returning cash to shareholders, i.e. M&A, any pipeline, just any update in your strategy there?
Bill Brown - Harris Corporation - Chairman & CEO

Well, we won't -- wouldn't talk about anything in particular on M&A, but I would say that there's nothing in the marketplace or at Harris right now is changing our strategy. We remain committed, as the Board does, to returning capital to owners in an efficient way. We continue to fund internal priority; that’s our number-one requirement. We pay a nice dividend. You probably saw we raised it again 12% in the month of August. We've got a very strong track record of double-digit increases going back a decade. 23% CAGRs was pretty healthy, and it’s been up by about 19%, 20% in the last three years.

We’ve been pretty good in the returning cash in terms of buyback as well, and, as my comment to Gautam indicated, we’re still at $200 million for the year, $100 million in Q1. We came out of the gates a little soft on free cash flow, but I’m sure we’ll hit 100% of net income in the full year. So, nothing has really changed at this point that’s notable to report to our owners.

Joe Nadol - JPMorgan - Analyst

Okay. Thank you.

Operator

Carter Copeland, Barclays.

Carter Copeland - Barclays Capital - Analyst

Hey, good morning, all. Just a couple of quick ones. First off, on your comments around PSPC, I know last quarter, Bill, you had said you expected things to tick up a little bit more in the back half of the year, but it sounds like, incrementally, the commentary there (technical difficulty) that, that market is a bit tougher than you thought coming into the year. Am I hearing that correctly (technical difficulty) hopes of a pickup in the back half of your fiscal year?

Bill Brown - Harris Corporation - Chairman & CEO

Yes, it is incrementally a little bit softer than we had hoped. We thought the market would accelerate towards the back end of calendar 2014 and at least through our calendar 2013, so our first quarter, we didn't see that happening. As I mentioned last time, this is a combination of both the market being soft and continuing to be soft. I think we're in a bit of a trough between the narrow banding and re-banding roll off in LTE somewhere off in the horizon, and the market is getting a bit more competitive.

And we've got some internal execution issues that we're working through. We've put in place a new management team. We're working hard on our sales force. We're making a lot of improvements to our product offering. We're working on some of the nagging quality issues we've seen over the last couple of years in our business that the team is really focused on, and we get almost-daily reports on how we're improving on the quality side.

So it's really the combination of those two things. And, in order to hit -- so we start off the year -- fiscal year, a little bit softer than we had hoped. We're still guiding to flat for the full year, but that does put a bit of stretch in the back half.

Carter Copeland - Barclays Capital - Analyst

Okay, great. And then, with respect to INS, I wondered if you'd just give us a little bit of color. The language in the release makes it sound like the year-over-year decline was basically on the IT services pieces you talked about, which would suggest that the domestic declines -- or government
declines in CapRock were offsetting the growth in commercial. Is that the right characterization? And, can you help us understand some of the color around the declines in the growth there and just some more color on what you’re seeing in that marketplace?

Bill Brown - Harris Corporation - Chairman & CEO

I think it’s accurate, Carter. I think the challenge we had in INS in Q1 was almost as we had expected and guided to, so the segment as a whole came in as we had thought it would. IT services and the rest of the government part of INS was soft.

We did see the roll off of two significant contracts in the IT services business. One was NMCI that Mick had mentioned. The other is the NETCENTS products business, which we decided to not sell under anymore because we didn’t think it added any value to our owners. That’s about two-thirds of the impact in IT services, and the other third was about -- was really around the market softness in IT services.

We did continue to see some erosion on the government side of CapRock. That business was down about 24%, 25% last year. It was pretty soft as well in Q1, and that was not quite offset by, as we mentioned, some growth in the commercial side of CapRock, which was very good both in maritime and energy, as well as in the commercial side of healthcare. So, it didn’t offset the declines from the government side, but it did mute them a little bit.

Carter Copeland - Barclays Capital - Analyst

Okay, great. And, just lastly, with respect to the -- I understand this can be a Q1 thing, but you’re obviously running very good margins in government comm in the quarter, with INS perhaps a little bit below full-year expectations. Are those suggestive of any trends? Does it imply anything about the guidance moving, or is it just Q1 and it’s too early to call?

Bill Brown - Harris Corporation - Chairman & CEO

It’s too early to call. But, yes, we did see GCS a little bit better than what we’re guiding to for the year. We knew that was going to end up happening. We knew the margins were going to be strong. We knew we had a couple of space programs that are more product related that are going to wind down after Q1, so we don’t really see that repeating in Q2.

But we’re very, very pleased with where GCS has been in a market that’s really very challenging. To come out with 12% growth top line and pretty strong orders is a very impressive accomplishment of the team. And, like I said, on the INS side, yes, it’s a little bit soft. Not as we -- we expected the softness in the first quarter, but, today, we don’t see any change in the guidance for the full year for GCS or INS.

Carter Copeland - Barclays Capital - Analyst

Great. Thanks for the color, Bill.

Bill Brown - Harris Corporation - Chairman & CEO

You bet. Thank you, Carter.

Operator

Pete Skibitski, Drexel Hamilton.
**Pete Skibitski - Drexel Hamilton - Analyst**

Good morning, Bill, I was wondering, do you have a sense that maybe your Army radio revenue is at a trough this year? I know it should be down. It's been down for a number of years. It seems like the comp is just getting easier for you in terms of DOD volumes, particularly at the Army, because you've got a number of competitions. It seems like you're pretty well placed. On the other hand, the Army budgets are really tough, so I'm just wondering how you think about things from that perspective.

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**Bill Brown - Harris Corporation - Chairman & CEO**

Well, look, it's -- we certainly see the business continue to be challenged in our FY15. That's why we're guiding to be down another 10% to 12% from being down north of 20% last year. So, we know there's going to be more pressure in the budgets in FY15, however, they're constituted and get approved in December-January timeframe.

But, look, we see the budgets bottoming. We may not be at the bottom, but we're certainly near it. We do know that, with a modestly better budget environment, we do see budgets starting to recover and support for modernization happening in FY16, so we do see that getting better over the next year or two. It's hard to say that this is exactly the inflection point, but I think we're bumping along the bottom.

I think the demand is there. It's driven by a number of factors. Certainly, Army modernization is important. I'm glad to see it's still a priority. The opportunity over the next decade is multi-billions of dollars, could be $5 billion. We do know that some of the delays in HMS do create some fielding gaps that we hope we can find a way to plug.

I'm very pleased that SOCOM has come out with their STC program, their modernization program. That came out as an RFP in October, and the rest to follow. That's a $0.5 billion program. We're well positioned there.

We do know that there's some reset opportunities that are O&M-funded because there's a lot of inventory of radios, and they need to be upgraded and reset. There's some urgent needs requirements. There's a lot of conflict in the world, and perhaps there's some urgent needs that are happening. I'm finding a lot more attention paid to Mules, and frankly, a little more concern around Satcom access and Satcom reliability, which is partly why we're seeing a little more interest in a wideband radio -- wideband HF radio.

So, to me, there's a number of things that could cause the business to get better over time. I do see that, when the markets do come back, when the funding is there, the investments that we've made -- and they're significant ones -- are going to position us to be successful. So, long way of saying, Pete, I think we're bouncing along the bottom, and recovery is going to depend upon what happens in the overall budget environment.

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**Pete Skibitski - Drexel Hamilton - Analyst**

Okay, great. I just have one more follow-up.

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**Bill Brown - Harris Corporation - Chairman & CEO**

Sure, please.

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**Pete Skibitski - Drexel Hamilton - Analyst**

Hosted payloads, you're on a couple of contracts now. It's kind of a new area. Just wondering how you think about this area, maybe how big you think it could be, because, like I said, you have a couple of new contracts, but there's a lot of competition also, at least on one of them. So, I'm just wondering if you see this as a long-term trend and if it's a meaningful opportunity for you or just a more modest one.
Well, I think it’s a -- I think we’re very, very well positioned. And it started a couple of years ago when we won the Aireon hosted payload for the Aireon, the Iridium set of satellites that are going to launch, I think, sometime next year. And that put us in a leadership position, and we were able to augment that win with a number of other payloads on that platform. And I would say, today, we’re the market leader on hosted payloads.

And I think we’re well positioned. We’ve got a facility set up in Palm Bay under GCS. We’ve got a lot of years of experience in doing this sort of work. The -- us winning a piece, like many others, on this hosted payload solutions contract is very encouraging to us. We’re looking at six or seven different opportunities that are live under that particular contract. And I think we’re going to be very well positioned over time.

I do think that this is a longer-term trend. This has to do a lot with what people call this disaggregation of space, where very large, multi-billion-dollar, single-purpose satellites will likely, over time, get disaggregated into smaller pieces that could be more responsive, launch faster, be more nimble than waiting for a decade to have a very large, exquisite, multi-billion-dollar satellite launch. I think the needs of our military and IC community, and the technology progress, is such that it’s -- to me, that’s the direction that this whole market’s going to go. Doesn’t mean that there won’t be a demand for exquisite technology. I just think that there’s a lot of opportunity for finding hosted solutions on ready-to-be-launched commercial platforms.

Chris Quilty - Raymond James & Associates, Inc. - Analyst

Thanks. Bill, can you give us -- is there any update on the timing of the RFPs for the rifleman or manpack, or still on track?

Well, latest we’ve heard is the rifleman RFP should be out in the next couple of months by the end of the year, and probably the manpack perhaps early in calendar 2015, like in the January timeframe. I’m not so good at calling the ball on this one, Chris, to be honest with you. That’s the latest we’re hearing from the PEO, and so I’m repeating that to you, but it does feel like it’s getting a lot -- it’s right around the corner. There’s been a lot of discussion, RFI-type discussion on both the rifleman and the manpack going back and forth, and it certainly does feel like we’re getting a lot closer to the RFPs being issued, so that’s our perspective as we speak today, Chris.

And I haven’t read through all the commentary on the RFIs, but was there anything in the original specs or the RFI discussions that’s troubling in terms of product designer requirements?
Bill Brown - Harris Corporation - Chairman & CEO

No, I wouldn’t say there’s anything that we’re finding particularly troubling. The RFIs on the manpack really go back to what happened in NIE 14.2 where the program of record perhaps didn’t meet the expectations of the Army, that’s followed with this memo from General McMaster, who at the time was the Commanding General of the Army Maneuver Center of Excellence. This was like in the June timeframe. He was pretty critical of the program.

And I think what the Army has done is gone back and reassess their needs, their requirements. And the RFIs that we’ve responded to are more along the lines of addressing some of the concerns on size, weight, power, range, heat, that General McMaster pointed out, and it’s asking questions relative to, what sort of improvements would you be able to make over what period of time in the manpack. And I think it’s being used to inform the Army as to what might be a threshold requirement and what might be an objective requirement.

I find it all, to be honest with you, very encouraging for Harris. Because what they’re looking at is, how will these products be improved over the near term to do those things that General McMaster wants to see happen: take weight out of it; make it more nimble; improve the range; reduce the power draw; improve battery life. Those are some of the things that we do every single day, going back over a decade, and we continue to make improvements in our radio.

We think, today even, our manpack is very, very well positioned. I made a few comments on that in my prepared remarks. I think our radio is well positioned. We’ve got great ideas to do some additional things, bring additional value, like this additional slot that the team just put into the manpack radio, that lag capability, should the war fighter need that additional capability for ISR or Satcom access. That’s pretty interesting and unique, and has gotten the services interested and excited about that.

So, that’s the progress that’s happening right now. So, I do believe when the RFPs -- when they come out over the next couple of months, I think we’re going to be very well positioned. I’m extraordinarily encouraged that we have three orders outside of the Army already, and we’re delivering in this quarter, and I think that’s really, to me, is a testament to the fact that we’re ready to compete for the Army program.

Chris Quilty - Raymond James & Associates, Inc. - Analyst

Got you. Speaking of orders outside, if I did the numbers correct, it looks like your international opportunity pipeline went from about $2.4 billion to $1.5 billion. Are those numbers correct, and can you just speak to that?

Bill Brown - Harris Corporation - Chairman & CEO

No, the international pipeline has remained about $2.5 billion for the last several quarters. It’s very, very good, very strong. And, as I mentioned in some of my remarks, I think the quality of the pipeline is good, if not coming up a little bit. It hasn’t changed in its size over the last couple of quarters, despite really good bookings here, Chris.

Chris Quilty - Raymond James & Associates, Inc. - Analyst

Okay. And, with the FGCM contract, can you just speak to -- with the series of contract awards now, how much incremental all of that order activity has been relative to your past work that you’ve done in recent years?

Bill Brown - Harris Corporation - Chairman & CEO

Yes. No change to what I mentioned on the last call. We have a long history with the NGA as a key geospatial imagery supplier. And that broad set of suppliers is narrowing itself down to, today, to really being two, and we won two of three regions around the world. As I mentioned, one of the regions was protested; it was denied. So, we have two of three regions around the world for the NGA.
Task orders are starting to be issued against those contracts. And, as I mentioned last time, we expect the value of that business for us, for Harris Corporation, to roughly double in size from where we were. And we were in that $30 million, $50 million range, maybe $50 million, and we think that’s going to double over time.

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**Chris Quilty** - Raymond James & Associates, Inc. - Analyst

Great. Thank you.

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**Bill Brown** - Harris Corporation - Chairman & CEO

You bet, Chris.

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**Operator**

Josh Sullivan, Sterne Agee.

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**Josh Sullivan** - Sterne, Agee & Leach - Analyst

Good morning. So just with the rebasing of energy prices in the last month or so, are your CapRock energy customers making any change to their long-term CapEx investments?

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**Bill Brown** - Harris Corporation - Chairman & CEO

We haven’t seen that. I think it’s too soon to say, and I think it’s pretty consistent with the commentary that I’m reading across all the other players in the energy segment. At $80 a barrel -- or whatever it is today, $80, $81, something like that -- it hasn’t hit that level which causes people to rethink capital investments. Should it fall another $10, $15, maybe something’s going to change. I think what’s going to end up happening in the -- impacting some of the big oil and gas players a lot sooner than it will impact us. So we have not seen that.

Remember, our model here in CapRock, these rigs are existing. They’re very -- and the new ones are long-term build. You’ve got to get position on them very, very early on. We tend to own the equipment. We lease it back to the operator of the rig. So, should oil prices remain deeply depressed for a multi-year basis, would there be an impact on the business? It’s possible, but it won’t read through to us for some time.

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**Josh Sullivan** - Sterne, Agee & Leach - Analyst

Okay. And then, can you just talk about the SmartSky opportunity, and if there’s any overlap on the LTE capabilities at public safety?

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**Bill Brown** - Harris Corporation - Chairman & CEO

Yes, it’s a little bit too soon to talk about SmartSky for us. We do think it’s an interesting opportunity for us for developing some good technology based on GCS for air-to-ground communications. And it builds on the things that we do at public safety, but also in LTE capabilities we have around the Company, and it’s really being led by GCS. A lot of it has to do with our ability to develop and deliver long-range radios. We do it for the military, and this is a slightly different adaptation of that. So, nothing to really update today. It’s still a work in process.
Josh Sullivan - Sterne, Agee & Leach - Analyst

Okay, great. Thank you.

Operator

Thank you. I'm showing no further questions at this time. I would now like to turn the call back to Pamela Padgett for closing remarks.

Pamela Padgett - Harris Corporation - VP of IR

Okay, and thank you for everyone for joining us today.

Operator

Thank you. Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.