



Q4 2012 Earnings Conference Call Wednesday, January 23, 2013

PARTICIPANTS

Corporate Participants

Shep Dunlap – Vice President-Investor Relations
Gregory Q. Brown – Chairman & Chief Executive Officer
Edward J. Fitzpatrick – Chief Financial Officer & Executive Vice President
Mark F. Moon – Executive Vice President-Sales & Field Operations

Other Participants

Pierre C. Ferragu – Analyst, Sanford C. Bernstein Ltd.
Jim Suva – Analyst, Citigroup Global Markets Inc. (Broker)
Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Tavis Christian McCourt – Analyst, Raymond James & Associates
Ehud A. Gelblum – Analyst, Morgan Stanley & Co. LLC
Jeff T. Kvaal – Analyst, Barclays Capital, Inc.
John J. Barta – Analyst, Northcoast Research Partners LLC
Matthew Hoffman – Analyst, Cowen & Co. LLC
Ben James Bollin – Analyst, Cleveland Research Co.

MANAGEMENT DISCUSSION

Operator: Good morning and thank you for holding. Welcome to the Motorola Solutions Fourth Quarter 2012 Earnings Conference Call. Today's call is being recorded. The presentation material and additional financial tables are currently posted on the Motorola Solutions Investor Relations website. In addition, a replay of this call will be available approximately three hours after the conclusion of this call over the Internet. The website address is www.motorolasolutions.com/investor. At this time, all participants have been placed in a listen-only mode and the lines will be opened for your questions following the presentation.

I would now like to introduce Mr. Shep Dunlap, Vice President of Investor Relations. Mr. Dunlap, you may begin your conference.

Shep Dunlap, Vice President-Investor Relations

Thank you and good morning. Welcome to our call to discuss fourth quarter and full year results. With me this morning are Greg Brown, Chairman and CEO; Ed Fitzpatrick, Executive Vice President and CFO; and Mark Moon, Executive Vice President and President, Sales and Product Operations. Greg and Ed will review our fourth quarter results along with commentary and Mark will join for the Q&A session.

Earlier this morning, we posted an earnings presentation and press release at www.motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. It's important to review these materials. A number of forward-looking statements will be made during this presentation. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Motorola Solutions and we can give no assurance that any future results or events discussed in these statements will be achieved. Any forward-looking statements represent our views only as of today and should not be relied

upon as representing our views as of any subsequent date. Forward-looking statements are subject to a variety of risks and uncertainties that could cause our actual results to differ materially from the statements contained in this presentation.

And with that, I'd like to turn the call over to Greg.

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Shep. Good morning and thanks for joining us today. Q4 was another great quarter for Motorola Solutions. These quarterly results capped another very strong year for our company. 2012 marked a number of key accomplishments: solid sales growth, operating earnings expansion and double-digit EPS growth, strong cash flow and significant capital returns to our shareholders.

Q4 highlights included record sales and operating earnings continued leadership and innovation with new product launches and the acquisition of Psion. This morning, we reported fourth quarter sales of \$2.4 billion, an increase of 6% from Q4 of last year. On a GAAP basis, net earnings from continuing operations were \$1.18 per share compared to \$0.54 in the year-ago quarter. Non-GAAP net earnings from continuing ops were \$1.10 per share compared to \$0.87 per share in Q4 of last year, a 26% increase. For the full year, we posted revenue growth of approximately 6%, while increasing non-GAAP operating earnings by 9%. For the remainder of the call, we'll reference non-GAAP financial results unless otherwise noted.

Our Government business revenues increased 10% for the quarter. We saw strength across the portfolio, driven by double-digit growth in ASTRO and TETRA. Government sales increased 12% for the full year. Our growth was driven by a number of factors including the analog to digital transition, aging public safety infrastructure, U.S. narrow-banding and our broadest and most competitive portfolio ever.

In our Enterprise business, sales decreased 3% from the year-ago quarter, including the anticipated decline in iDEN. On a full year basis, Enterprise revenue declined 5% as many large customers postponed deployments in the face of soft economic conditions and uncertainty. We do believe that the challenges in this segment were more cyclical than structural.

I'll now turn it over to Ed to discuss our financial results in more detail, then I'll return to discuss operational highlights and provide additional thoughts on our business performance.

Edward J. Fitzpatrick, Chief Financial Officer & Executive Vice President

Thanks, Greg. Q4 sales grew 6% in line with our expectations. This marks yet another quarter of improved operating leverage as our disciplined cost management and targeted investments continue to yield operating margin expansion. On a full year basis, revenue grew 6% to \$8.7 billion, while operating earnings as a percent of revenue was 17.3%. This represents a 9% increase in operating earnings from 2011. EPS in the fourth quarter was \$1.10, which represents a 26% increase. For the full year, we delivered a 23% increase in earnings per share.

In Government, we continue to see robust growth as fourth quarter sales totaled \$1.7 billion, an increase of 10% from the prior quarter. 2012 full year Government revenues grew 12% to \$6 billion.

Sales for the Enterprise business decreased by 3% to \$733 million in Q4, excluding the impact of the Psion acquisition, Q4 revenues declined 12%. For the full year of 2012, the Enterprise business posted

revenues of \$2.7 billion, declining 5% year-over-year. This decline was driven by the macroeconomic environment and constrained IT spend, fewer large deals in areas that were strong last year, such as transportation/logistics and unfavorable FX.

Operating expenses were \$761 million or 31.2% of revenue, which represents a 30 basis point improvement from the year-ago quarter. Our operating earnings for the fourth quarter were \$476 million or 19.5% of sales compared to \$444 million or 19.3% in Q4 2011. I am pleased with our quarterly year-over-year improvement as well as our full year performance as we grew 2012 operating earnings by 9%. This improvement was achieved despite approximately \$50 million in incremental U.S. annual pension expense in 2012.

Our teams continue to drive profitable growth by making the critical investments required to grow the business while exercising disciplined cost management.

Total other income/expense was a net expense of \$60 million a quarter compared to a net expense of \$9 million in Q4 2011. Our effective tax rate was approximately 32% for the quarter, which was lower than expected due primarily to true-ups of prior year taxes based on the recent filing of the U.S. income tax return result in approximately \$0.04 of additional EPS in Q4.

The cash tax rate was again below 20% for the year as we continue to utilize available tax credits on our balance sheet. We expect the remaining tax credits to contribute to an average cash tax rate of approximately 20% for the next several years.

I'm extremely pleased with our execution on delivering cash flow for the quarter. Cash flow from operations was \$564 million this quarter. This was driven by strong net income and improved working capital management across the board. This includes an improvement in day sales outstanding and inventory turns from Q3. For the full year, we generated operating cash flow of \$1.1 billion, which includes \$340 million of contributions to the U.S. pension plan.

We ended the quarter with \$3.6 billion in cash and investments and \$1.9 billion in debt. During Q4, we repurchased \$326 million of stock, which brought us to \$2.4 billion or nearly 50 million shares for the year.

In the first six quarters of the plan, we repurchased \$3.5 billion or 76 million shares at an average price of \$46.57. This means we reduced our net share count by 20% over this period. In addition, we paid \$73 million in dividends during the quarter and a total of \$270 million for the full year.

Before turning to our outlook, I want to spend a moment to summarize some important changes in terms of pension expense and cash contributions to the U.S. pension plan. Interest rates continue to decline from last year's historic lows and based on the 4.35% discount rate at the end of 2012, our total underfunded U.S. pension balance increased from \$2.2 billion to \$2.8 billion.

With that said, we expect 2013 U.S. pension expense to return to levels more consistent with 2011 or approximately \$130 million. The year-over-year decrease is driven by changes to our loss amortization period, which was increased from nine years, the previous estimated remaining service period for active employees to 28 years, the average remaining total participant life expectancy.

The increase in the amortization period is in accordance with relevant accounting rules and was driven by the change in mix of active and non-active employees remaining in the plan as substantially all of our plan participants are no longer actively employed by the company due to significant employee exits as a result of the mobility spend and recent divestitures.

We are planning approximately \$300 million cash contributions to the U.S. pension plan in 2013 and we expect similar levels of contributions in future years.

Now, turning to our Q1 and full year outlook. For Q1, we expect sales growth of 4% to 5% over the first quarter of 2012. Our outlook is for non-GAAP earnings per share of \$0.62 to \$0.67 from continuing operations based on the Q4 ending share count. This compares to non-GAAP EPS in Q1 2012 of \$0.59 per share. This outlook excludes stock-based compensation and intangible amortization expenses of approximately \$0.13 per share and other items historically highlighted in our quarterly earnings releases.

Moving to full year 2013, our outlook is for sales growth of 5% to 5.5%, which includes an anticipated \$65 million year-over-year iDEN decline to approximately \$200 million. We expect non-GAAP operating margin of approximately 18%. Operating cash flow should improve largely in line with net income growth.

In addition, I would like to provide some color on a few other items. We expect other income and expense to be a net expense of approximately \$25 million per quarter, while our full year effective tax rate should be approximately 34%. We also plan quarterly share repurchases to approximate the levels that we have executed over the past two quarters.

I'll now turn it over to Greg for business highlights from the quarter.

Gregory Q. Brown, Chairman & Chief Executive Officer

Thanks, Ed. In Government, our sales for the quarter were \$1.7 billion, up 10% over Q4 2011. We continue to see broad-based growth across the portfolio and in all regions. Profitability for the business also increased with operating earnings of 21.8% of sales compared to 19.8% in Q4 of last year. For the full year, we saw strong growth across all of our major product lines in Government, including double-digit growth in ASTRO and TETRA along with near double-digit growth in our professional and commercial radios. In addition, growth extended beyond our radio solutions, with double-digit growth in our mission-critical command and control portfolio.

Full year growth of 12% was balanced across both infrastructure and devices. Mission-critical system infrastructure sales increased significantly in ASTRO and TETRA, which we believe is an indicator of future subscriber demand.

Since 2009, our focused R&D investments have led to the introduction of over 100 new products across both subscribers and infrastructure and while mandates to improve spectrum efficiency encouraged some of our U.S. customers to upgrade, our new product introductions and expanded portfolio were a far more significant driver for us demonstrated by our international growth. We had a strong finish to a very good year in North America with full year sales growth of 14%. We also had double-digit growth in Latin America this year and solid growth in EMEA and Asia as well.

In ASTRO, our market-leading P25 technology, we now have over 30 customers contracted for Phase 2 TDMA systems. This technology is twice as efficient as required by the current FCC narrowband mandate in the United States and enables double the channels and throughput. And during the quarter, several new customers signed up for this industry-leading solution including Montgomery County, Pennsylvania for \$39 million; Tacoma, Washington for \$28 million; Clayton County, Georgia for \$17 million; and Onslow County, North Carolina for \$13 million.

Customers like these who are investing in our next-generation systems have the assurance that new radios with enhanced features remain interoperable and backward-compatible with legacy P25 Phase 1

radios using our Dynamic Dual Mode feature. Our solutions allow customers to incrementally invest like Camden, New Jersey, a municipality that recently added a \$12 million expansion to their countywide trunk system to add geographic coverage and new users from surrounding agencies.

Our ASTRO technology extend – extends beyond North America as we now have deployments in over 60 countries as well. Several new awards this quarter highlight this trend including in Latin America, Colombia Ministry of Defense for \$12 million, Panama Ministry of Public Safety for \$6.5 million and large system for the Brazilian Army. And in Australia, we won numerous awards across all the mainland states that exceed \$25 million in total.

We had a record year in TETRA. We also celebrated a shipment milestone for TETRA with 2 million units shipped over the life of the portfolio, a portfolio which we've expanded significantly. Just three years ago, we only had one TETRA radio model. We now have a portfolio of over eight radios with the introduction this quarter of two new mobiles and the most advanced TETRA portable radio in the world.

We're seeing the results of this TETRA investment with wins throughout Europe including Germany and also in Asia. For example, the State of Brandenburg, Germany, recently selected Motorola for a four-year agreement to supply over 20,000 TETRA radios along with software and services for police, fire and EMS. Other TETRA wins this quarter included a multimillion dollar project with a large nuclear power company in Russia, upgrades to the Shanghai Metro system for \$7 million and awards for the Shanxi Police and Guangdong Police in China.

Moving on to our Enterprise segment, sales in Enterprise were \$733 million, a decrease of 3% from Q4 of 2011, including the anticipated decline in iDEN and the addition of \$72 million in Psion revenues. Operating earnings declined to 14.1% of sales from 18.2% last year. For the full year, the 5% decline in the Enterprise segment was impacted by the anticipated decline in iDEN of nearly \$100 million, partially offset by the Q4 revenues from Psion.

Our results were impacted by external factors such as a challenging macro environment, leading to suppressed IT spend and unfavorable FX. In addition, it was – there was some uncertainty around operating system roadmaps for enterprise mobile computing that we believe caused some customers to pause.

Looking across the portfolio on a full year basis, Advanced Data Capture grew single digits, offset by a single-digit decline in enterprise mobile computing and a double-digit decline in WLAN. Despite the macro uncertainty, our engagement with customers remains strong, with examples of some customers who continue to invest in our mobile technologies, which yield high return on investment.

The largest bakery in the world, Grupo Bimbo, recently awarded us a global supply agreement for mobile computing solutions that includes the MC65 for use in direct route delivery and bakery operations, beginning with the deployment in Mexico and Target recently awarded us a contract to deploy next-generation mobile computers in their stores.

This quarter The Home Depot continued to invest in their first phone platform. These are associate productivity tools based on our mobile computing devices. Home Depot's investment will help to further reduce the time and associates' spends on store tasks. Their goal has been to reduce task time from 60% to 40% and in return enable store associates to spend more time with customers.

The Motorola solutions provide inventory information and the communications and associate needs to serve a customer. Ferguson, the largest wholesale distributor of residential and commercial plumbing supplies in the U.S. recently chose Psion's EP10 devices to fully optimize its logistic and delivery fleet

and Volkswagen recently chose Psion mobile computers for use in manufacturing and warehouse operations at their Puebla, Mexico plant. Italian post invested in our DC92 scanners, along with an additional 10,000 MC65 mobile computers to be deployed through their post offices in Italy; Australia Post recently ordered \$9 million worth of mobile computing solutions; and Norwegian post ordered \$2 million of additional MC65 mobile computers as well.

For the second year in a row we were recognized as the Best Partner Supplier to Tesco. In addition, we received their Innovation Partner of the Year for our work on the SB1 and the personal shopping solution based on our MC17. This partnership with Tesco is an example of the deep domain expertise and investment that Enterprise customers expect from Motorola.

We recently introduced the MC45, a value tier WAN-enabled device that extends our knowledge worker portfolio for reach into field mobility segments and emerging markets. We also announced the MP6000 multi-plane scanner, which sits inside the checkout counters used by retailers. Our investment in camera-based technology have enabled us to enter this new segment with a superior product to serve many existing retail customers, and address a \$250 million market opportunity that is new to us.

The National Retail Federation's Annual BIG Show was just last week. Show attendance and our booth traffic was up significantly from last year, as attendees were interested in new technology for retailers to improve their customers' experience. One theme from the show was clear, that a more informed consumer is driving retailers to invest. Our Annual Consumer Shopping Study revealed that over 60% of retail managers believe that shoppers are better connected to information than their in-store employees. Retailers who embrace technology and enable their store associates to directly engage shoppers are creating differentiation to customer service and avoiding costly lost sales.

Now, switching gears and turning to a regional overview of the company. North America grew 9% for the quarter and year driven by strength across the Government portfolio, especially within ASTRO and professional and commercial radio. In Enterprise, depressed IT spend contributed to fewer large deals in enterprise mobile computing while our data capture business turned in solid results.

EMEA grew 4% for the quarter including Psion while full year growth came in at 2%. Government returned to growth for the year despite the challenging backdrop of austerity. Contracts like Norway and Germany and the expanded TETRA product portfolio contributed to a good year. Enterprise declined, but held up well considering the unfavorable euro impact in 2012 and a mid-20% growth compare in the previous year for 2011.

Asia grew 5% for the quarter and for the full year. Although these results were below our expectations, we remain confident in our long-term prospects for this region. Latin America grew 16% excluding iDEN. Government grew solid double digits as we saw a good performance in several of our larger countries.

In services, we had a great year as well, with 9% growth driven by solid results in our largest region of North America and double-digit growth internationally. In our Government business, we recently signed managed service contracts with Austin, Texas, for a \$32 million multiphase upgrade that will ensure their P25 system stays current with evolving technology and with Prince William County, Virginia, for a \$25 million computer-aided dispatch solution.

Enterprise customers are also looking for end-to-end solutions and we signed several agreements with nationwide retailers that attach managed services and comprehensive device management with our mobile computers. In October, many of our customers and employees on the East Coast were impacted by Hurricane Sandy's devastation. Motorola was on the ground to help and we continue to assist with rebuilding efforts.

Storms like Sandy illustrate the unique requirements public safety has for their mission-critical networks, built around highly redundant architectures that include features like talk-around where our devices communicate directly with each other. It's estimated that almost 25% of the commercial cellular towers in the area were offline due to the hurricane. However, our land mobile radio systems were fully operational and available to assist first responders with their rescue and recovery efforts.

Q4 results were a great finish to another outstanding year, solid revenue growth, expanded operating margins, over 26% earnings per share growth and continued return of capital to shareholders. We continue to execute on our strategy with a sharpened focus on Government and Enterprise, and a promise to help people be their best in the moments that matter.

I'd like to thank our 22,000 employees for another year of focus and performance, and I look forward to 2013. The demand drivers for our business remain solid and we continue to invest and innovate for profitable growth.

Shep Dunlap, Vice President-Investor Relations

Thanks, Greg. Before we begin taking questions, I would like to remind callers to limit themselves to one question and one follow-up in order to accommodate as many participants as possible. Operator, could you please remind our callers on the line how to ask a question.

QUESTION AND ANSWER SESSION

Operator: Absolutely. Thank you. Our first question is coming from Pierre Ferragu with Bernstein. Please go ahead.

<Q – Pierre Ferragu – Sanford C. Bernstein Ltd.>: Good morning and thank you for taking my questions. I was wondering how you see the evolution of your operating expenses in 2013. If I look at the way you've guided the year in top-line and in operating margins, if I assume things are not going to change much on – at your gross margin level, I sort of end up with OpEx growing at a faster rate than in 2012. So is that just me making the wrong assumptions or do you see expenses increasing a bit faster this year compared to last year?

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: I think on the operating expenses side, you shouldn't see – significant changes year-over-year. The one benefit that I had mentioned was the pension expense would be a bit better. Other than that, we will dial up and dial down as appropriately within R&D, marketing and selling to ensure that we're addressing the opportunities, but the year-over-year level should be relatively consistent, up slightly driven by annual merits and the like, Pierre.

<Q – Pierre Ferragu – Sanford C. Bernstein Ltd.>: Thank you. And maybe – if I can just ask one quick follow-up. You have a lot of new products coming in on – in your Enterprise division. And could you give us an update on these products? When do you expect them to hit the market? And if you have already some perspective on whether your Enterprise clients are going to adapt to these new products relatively quickly? Or if we are in a situation where there is a risk of a very slow ramp-up because of the economic environment?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah, Pierre, I think that we have a couple of the new products already available now on the enterprise mobile computing side. To be more specific and some of the new, new, the MC40, we expect to be available and shipping in Q2, which is great, a front store facing operations device that will expand our portfolio, our SB1 smart badge should also be generally available in Q2 and then the multi-plane scanner should be available by midyear as well. So in addition to some of the new MC series mobile computing devices that are already shipping, we have these new products that will be available in a couple of quarters and we feel pretty good about the portfolio.

<Q – Pierre Ferragu – Sanford C. Bernstein Ltd.>: Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Pierre.

Operator: We'll go next to Jim Suva with Citigroup. Please go ahead.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Thank you and congratulations to you and your team there at Motorola Solutions.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Jim.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: I have two questions. First of all, can you talk a little bit, you mentioned a little about a pause in mobility, is that Enterprise related to like the uncertain IT budget spending environments or what kind of caused that pause and if so is that kind of you think going to be resolved here in the next couple of months?

And then the second question I had is on your net cash position, can you just kind of remind us of your goals, your leverage plans and any debt you may take out, kind of timelines you should think about and using it for stock buyback, accretive acquisitions? Thank you very much, gentlemen.

<A – Greg Brown – Motorola Solutions, Inc.>: So, Jim, on the Enterprise side, I think the pause was due to a few things. Number one, fewer larger deals, which represented basically a number of smaller deals that made it difficult to compare in the previous year comp, but also the pause was around, to your point, IT spending acknowledging the macro environment. I think we believe that will improve as IT spend and IT hardware spend is anticipated to increase. There was also, I think, and I mentioned it last call anecdotally, but I think that around operating system roadmaps specifically Microsoft Windows 8, which has been remediated and we announced at NRF plans to incorporate Windows Embedded 8 into some of our – in some of our devices in 2013, so I think that takes care of itself as well. So generally speaking, I think that the environment for Enterprise should improve.

Remember also in Enterprise, we also have a couple of products available on Android, our ET1 tablet and new device that I just referenced with Pierre, the MC40. So we feel pretty well-equipped because we have devices on Microsoft 6.5.3 and devices on Android with extra Enterprise security-grade features that have been developed on top of Android and we also have HTML5 which is a web browser level. So we can accommodate application through a variety of different enterprise environments. Between that, new products in an improving external environment, we think it should get better. In terms of debt or net cash and debt, Ed and I have talked about we came out of the quarter with net cash of \$1.9 billion, gross cash of \$3.6 billion and it is our intention at some point in 2014 to go into a net debt position and the only other color I give you, Jim, on cash is referencing Ed's comments in the script which talked about share repurchases of approximately in line or comparable to the previous two quarters Q3 and Q4. So that should dimensionalize where we are in net cash, where we're headed with net debt and our planned expenditures. Very much in line with what we outlined at the Financial Analyst Meeting last year, we're well on our way there.

<Q – Jim Suva – Citigroup Global Markets Inc. (Broker)>: Thank you and congratulations to you and your team at Motorola Solutions.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks, Jim.

Operator: And we'll go next to Kulbinder Garcha with Credit Suisse. Please go ahead.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Hi. My first question for Greg is just in terms of the revenue growth of 5%, between Government and Enterprise, can you give us an idea as to how each of them is growing? Maybe I missed it, but in 2012, for the full year, what effect do you see narrow-banding had? And then the second question is kind of a follow-up to the last one, I guess what I'm getting at, maybe this is more for Greg, is the – you guys have exceeded on your margin numbers, your free cash flow conversion is improving. Why is the debt – adjusted debt to EBITDA ratio of two times is the appropriate number, why wouldn't that number be higher and what would make you consider taking that, or buying and distributing even more cash to shareholders. Is that under consideration or do you have good reasons to believe you can keep it at this level? Many thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: So on the revenue first, Kulbinder, for the full year in 2013, as kind of a backdrop to the overall revenue growth of 5% to 5.5%, we're planning for Government to be up low to mid-single digits, Enterprise to be up mid to high single digits. And of course that includes Pision and includes the contraction of \$65 million of iDEN

<A – Mark Moon – Motorola Solutions, Inc.>: Yeah, Kulbinder, in relationship to narrow-banding, I think we have spoken in the past it was approximately 3% of the growth in the quarter and approximately 3% for the full year for the Government growth, when you think about that. I think as you look going forward, and we've talked before, remember though narrow-banding was just a U.S. phenomena and it really only impacted about 30% of the U.S. install base. So as we look going forward, we're still excited about our product portfolio with the new features, better efficiency, the fact of users moving from analog to digital and aging install base and you saw throughout all of the regions, as Greg mentioned earlier, we had growth in the government segments. So it was not really just a narrow-band U.S. impact.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: And on the EBITDA and debt levels, Kulbinder, we've talked about a – adjusted debt to EBITDA something with a two handle on it, we're still comfortable with that. With that said, I would mention that the pension obligation going up to the level that it did something in the mid-2s is probably more appropriate at this point. And with that, we believe we can maintain that solid investment grade rating. But you're right as we grow EBITDA levels, we will be increasing the debt levels as we outlined as I said last year at the Financial Analyst Meeting such that we get to the point of a net debt position by 2014.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Thank you.

Operator: And we'll go next to Tavis McCourt with Raymond James. Please go ahead.

<Q – Tavis McCourt – Raymond James & Associates>: Ed, first I have a clarification, what if you can just lay out again what the pension expense and the cash contribution was in 2012 and what you expect those two things to be in 2013? And then on the share buyback, if I build in the \$300 million or so a quarter on buyback, I don't get anywhere near net debt position in 2014, given the free cash flow generation. So should we expect that to accelerate at some point after the next couple of quarters, because of the timing of getting cash back from overseas or maybe I'm just building in too much free cash flow, but any commentary around that would be helpful? Thanks.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: I think I can fill in the blanks a little bit with some assumptions that you need to add in there, because there's a couple different elements within the capital allocation plan, but first on the pension side, pension expense, I think, was approximately \$185 million this year and we should go to approximately \$130 million for next year, so that's the improvement that I had mentioned. Cash contributions were approximately \$340 million this year and that will go something in the range of approximately \$300 million next year, so a little bit of improvement in both.

And on the capital allocation plan, I think those levels do get us on the right trajectory. The one thing that we are factoring as we had mentioned as part of our capital allocation plan that 50-30-20 allocation of share repurchase and acquisitions does include an element of acquisitions as well. So we would plan for some level of acquisitions, of course, we need to meet all the right hurdles in that capital allocation plan such that we get to that net debt position by 2014.

<Q – Tavis McCourt – Raymond James & Associates>: Thanks. And then on the full year Enterprise growth, Greg, that you mentioned, should we expect that to be backend loaded given the comps get a lot easier or do you see something in the visibility of that business where we might expect that to be positive earlier in the year?

<A – Greg Brown – Motorola Solutions, Inc.>: I think it will obviously improve from the previous year but I would think the trajectory, Tavis, will be gradual as we go through the year.

<Q – Tavis McCourt – Raymond James & Associates>: Great. Thanks a lot.

<A – Greg Brown – Motorola Solutions, Inc.>: All right.

Operator: And we'll go next to the site of Ehud Gelblum with Morgan Stanley.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: Hi, guys. Thank you, appreciate it. Greg, you talk a lot about the new product, both in the Enterprise and the Government side, and it seems like ASTRO and TETRA doing very well. Can you give us a sense revenue-wise how each – I don't know how you segment out prior products versus new products. Can you give us some sort of sense as to revenue-wise how large the new products are within your portfolio and how that's growing over the last couple of years?

<A – Greg Brown – Motorola Solutions, Inc.>: So we do track NPI revenues as a percentage of the overall revenue contribution. Obviously, as you might imagine, Ehud, with the increased NPIs new product introductions that have materialized, the percentage as a basis of total revenue has increased. We don't break out with any level of granularity or detail beyond that, but it is – it's consistently gotten better. As you've mentioned clearly on the ASTRO and TETRA side and we expect it to improve on the Enterprise as well given the number of new products both toward the end of this past year and the launches that we have in Q1 and Q2.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: And following up just on that before I get to something else, is the margin different at all on new products because they are new or you can maybe charge more for them or should we look at them as just continuation of the previous portfolio?

<A – Greg Brown – Motorola Solutions, Inc.>: I would say a continuation and generally comparable.

<A – Mark Moon – Motorola Solutions, Inc.>: I think just to add to that piece, one of the advantages of continuing to refresh our product portfolio is the ability to continue to provide different options so that you're able to maintain ASPs throughout the portfolio as we go forward.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: Okay, that's actually a helpful way to look at it, thanks. Then, Ed, can you quickly go over the pension change that you mentioned about change in the liability period – amortization period, just so we can understand that a little bit better? And then, Greg, finally, do you have any thoughts on two of your competitors in the Enterprise side, Honeywell and Intermecc merging, Honeywell buying Intermecc, and does that give you an opportunity in the near-term because of potential confusion in the market? Does that make the industry more consolidated and help pricing or do you think that could be more challenging as you go forward? Anything you can say about kind of the industry consolidation?

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: So I'll cover the pension piece first. So the change that we had mentioned really is in accordance with FASB 87. As we've had the spin-off of the mobility business and the recent divestitures that we've talked about, predominantly all of our employees are no longer active employees of the firm. As a result of that, FASB 87 prescribes that you would use the total population life expectancy to amortize that pension expense as opposed to what we were using before, which was the active employees' service life remaining with the company. That's the result and change from 9 to 28 years. And if you think about it, a perfectly logical answer, which I think is much more aligned with the economic realities of the pension plan, given that very few of our active employees make up the total participant pool of the pension expense that we're funding and recognizing through expense over a period of time. So that's the change. It was all part of a comprehensive review as well of the plan. As we've looked at our asset returns as well and given the returns on the portfolio, you'll see that asset return come down from what we've assumed over 8% to something with a seven handle in it going forward. We also adopted a year early the mortality tables, which is a bit more conservative, given that

people are living longer, that expense will expand. So all of that is contemplated and reflected in that net improvement, if you will, that we talked about a little bit earlier in the call.

<A – Greg Brown – Motorola Solutions, Inc.>: Ehud, on Honeywell and Intermec, I'd make a few points. First of all, I like it because it validates the attractiveness of the industry. I'm not surprised at all that Intermec's been rumored for actually quite a while to be acquired, so I wasn't at all surprised. Obviously, very familiar with both Intermec and Honeywell, but that said, pretty confident in the value proposition we offer. The other thing I'd say is suffice to say we look at a variety of acquisition alternatives throughout last year. We prioritized Psion for a reason, and we're very pleased that we added them to the portfolio. We had other options available to us, but Psion was the one we felt the most bullish about because of what they do, their complementary product portfolio and some of the extensions into some other European and other geographies that we think are complementary. Remember, Honeywell continues on this buying spree. They bought HHP, Metrologic, LXE, now, Intermec Vocollect, they'll be several months until the deal is approved, assuming it gets approved. No reason to think it wouldn't, but they'll have their work to do on integrating the variety of mobile computing assets that really for us and Psion is much more clean and finally, I think in this space, it is less about price and more about total cost of ownership and the solutions orientation that you bring to bear and the customized and integrated applications that we implement for customers. So net-net, all those ingredients into the blender, we feel good about our position.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: Excellent. Appreciate the answers. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Thanks.

Operator: And we'll go next to Jeff Kvaal with Barclays. Please go ahead.

<Q – Jeff Kvaal – Barclays Capital, Inc.>: Yes. Can you hear me okay?

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah.

<Q – Jeff Kvaal – Barclays Capital, Inc.>: Excellent. Thank you, gentlemen. Couple questions, I think. Number one, one for you, Greg, would you mind helping us understand what your assumptions are for LTE growth in both North America and the rest of world? Is that a part of your 2013 planning assumptions?

And then secondly, I think, Ed, for you, in the past, you've talked about backlog, would you mind giving us an update on that if you can, please?

<A – Greg Brown – Motorola Solutions, Inc.>: Jeff, in LTE incorporated into the full year guidance of 5% to 5.5%, we still believe that LTE will not be more than \$100 million for the full year largely in the second half of 2013, and I think it will be primarily driven by the Middle East and less North America, from a timing perspective. That said, we continue to work very closely with FirstNet. There's, as you know, some early BTOP awards and spectrum waivers with customers like Mississippi and BayWEB. And Mark and I work closely with FirstNet and those end-user customers in hopes that they will begin to move forward in 2012. But it's not more than \$100 million and more international than North America-driven for 2013. But I'd also say though we continue to invest, from an R&D standpoint, in subscribers, in devices and in infrastructure. We've got the three products that are announced and launched now, a USB dongle, a vehicular modem, the LEX 700, and that's part of the incorporated R&D spend that we plan.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: Well, backlog, I'll cover high level, and Mark add any color commentary as appropriate here. But backlog, an important thing to note here is backlog is up year-

over-year from where we ended Q4 of last year, so up year-over-year, really driven primarily by Government. Enterprise, down a bit as you would expect, given the sales levels that we're seeing through today, sequentially down a bit but really in line with what we would have expected. So with that, I'll let Mark talk a little bit more color by business.

<A – Mark Moon – Motorola Solutions, Inc.>: Yeah, just I think as you think about backlog in particular, from a Government segment, which is a much longer cycle segment, the fact that we're up significantly by about \$500 million year-on-year, I think, is important. Also I would add that North America coming off of a very, very strong year that we've been talking about each quarter in Government was also flat in backlog. So we did not eat into the backlog, another positive sign of demand. And as we've mentioned, even though Enterprise did not have the year that we had hoped, backlog remains flat as we look sequentially with what happens. And as Greg had mentioned earlier in his comment, we're having a lot of good conversations coming out of NRF, very good excitement, not only about the portfolio, but about the need to continue to do things to enhance employee productivity and to enhance the customer experience as they go forward. So backlog, I think, from the perspective of how we look at it, we're in good shape going into the year.

<Q – Jeff Kvaal – Barclays Capital, Inc.>: Could I follow up on that and then ask, it seems as though the expectation that you have for Enterprise growth in 2013 is quite a turnaround from 2012. What are the factors that give you the confidence in there? It doesn't sound like backlog per se, support sale though, Enterprise of course is not as big of a backlog business.

<A – Mark Moon – Motorola Solutions, Inc.>: Exactly. That's why I kind of compared that sequentially, but you're right. As you look at the Enterprise segment, it is a more quick-turn type of business. When we talked about the drivers that kind of impacted 2012, we talked about the year-on-year comparables. Obviously, as we go into this year, our year-on-year comparable is much different given the performance we had in 2012. There's also been some positive indicators with the projections or forecast for IT spend. IT hardware spend, retail spending are all up year-on-year, which is a good sign for us. We were also impacted by the FX environment, particularly in Europe last year. That seems to be stabilizing. And as we mentioned earlier, a number of new products and some clarity around the OS roadmap for the future, I think, all brings us with a sense that we can return to mid to high-single digit growth for the year.

<A – Greg Brown – Motorola Solutions, Inc.>: And I think that – don't forget the, of course, the incremental revenue from Psion. We have new products shipping. The FX environment, as Mark mentioned, much more stable and we have clarity on the Windows Embedded 8 roadmap. So there's a few tangible beyond the environmental things that are specific that are improving. So that's incorporated into our thinking.

<Q – Jeff Kvaal – Barclays Capital, Inc.>: Okay. Thank you all.

<A – Greg Brown – Motorola Solutions, Inc.>: Thank you.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: Thanks, Jeff.

Operator: And we'll go next to John Barta with Northcoast Research. Please go ahead.

<Q – John Barta – Northcoast Research Partners LLC>: Yeah and thanks for taking my call. Assuming pricing is constant on the Enterprise side, how should we look at the introduction of Psion's mix of business? Are Psion's products more rugged higher-priced product or a little less than Motorola's norm?

<A – Mark Moon – Motorola Solutions, Inc.>: So I think when you think about Psion's products, they clearly are targeted at a different space than where we primarily compete, things like manufacturing, ports, cold storage; clearly a rugged product. They have done fairly well in their margins and their average selling prices of the past. We obviously think bringing them into the portfolio, we can begin to leverage the size of Motorola. But what makes us most excited is it really does expand our footprint and the ability to kind of leverage Motorola products into those verticals, Psion products back into the spaces that we discussed, a couple of customers we mentioned earlier back into our piece. So together, we think the two portfolios are very complementary.

<A – Greg Brown – Motorola Solutions, Inc.>: In addition to that, John, I think that the opportunity with Psion is on the gross margin side. Their pricing is good. We always thought that there's opportunity for gross margin improvement as they're under the umbrella of Motorola Solutions. As we look at complementary and similar suppliers and component purchases with our larger scale, we believe it will be able to improve the gross margin profile from Psion, less about pricing, more about gross margin improvement.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: I think we're on the right track there too. We talked about roughly breakeven in the fourth quarter of 2012 and in 2013, getting to profitability, not quite the levels that were – that we see across the rest of the business, but we will get to profitability in 2013. That's our current plan.

<Q – John Barta – Northcoast Research Partners LLC>: All right. Thank you.

Operator: We'll go next to Matt Hoffman with Cohen and Company. Please go ahead.

<Q – Matt Hoffman – Cowen & Co. LLC>: All right, thanks. Another Enterprise question. You addressed the growth equation there a couple of times, but was wondering whether you could add some color on the OS component. You have products with multiple OS's in the pipeline. But how much did buyer uncertainty around OS roadmaps factor into the 2012 equation? And then call out the features that they're looking for and that might help the 2013 equation there. Thanks.

<A – Mark Moon – Motorola Solutions, Inc.>: So I think it was clearly a component of the pause. I wouldn't blame it all on that or hide behind it. The category of enterprise mobile computing contracted generally in line with what we contracted. So I think we generally held share. I think there's much better clarity. Remember, the enterprise mobile computing or rugged mobile computing is virtually 100% Microsoft as an installed base, typically, Windows CE, Windows Embedded Handheld. So these customers that have Microsoft as a reference point want the clarity and migration to Windows Embedded 8. I think that clarity is now there. We worked closely with Microsoft. We'll be shipping some new product in Q2 that gives those customers critical clarity and comfort around that roadmap. In terms of features, Matt, we add enterprise software features or enterprise-grade features on top of Windows Embedded 8 Handheld, either that Microsoft puts in or that we put in, things around enterprise-grade security, power management, optimizing the wireless experience over voice and data and sensors like data capture. It's the unique features in this segment that allow purpose-built devices that are integrated with applications to flourish. And a lot of work's been done there, so we feel pretty well-positioned that, that clarity and then, ultimately shipping product will give customers what they need by midyear.

<Q – Matt Hoffman – Cowen & Co. LLC>: Thanks for the color there that definitely helps out. So just one follow-up on the Enterprise side. You called out wireless LAN, it was down I think double digits, you called it out. Do you think that was more the vertical overall or is there again a product delay or product issue there? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: I think the disappointment in what the wireless LAN business is mainly us, not environmental. The WLAN segment, in general, continues to grow. We lost share. We remain strong in our core verticals of retail and transportation and logistics and we're not pleased with losing share. That said, we do have some strong opportunities in the beginning of the year. The funnel is more robust. We see more customers want to engage less on buying WLAN product per-se and more into a managed services type value proposition that we'll incorporate and adopt. We feel better that the business can perform better in 2013, and we have higher expectations. But at the end of the day, we got to deliver. The loss of share is more us than environmental. We got to do better.

<Q – Matt Hoffman – Cowen & Co. LLC>: Thank you.

Operator: And we'll take our final question from Ben Bollin with Cleveland Research. Please go ahead.

<Q – Ben Bollin – Cleveland Research Co.>: Hi, good morning. Thanks for taking the call. I was hoping you might be able to walk us through the anticipated contribution of the Psion business to total revenue in 2013 and if you could quantify, what type of devices or operating system those devices are using? And then a quick follow-up.

<A – Greg Brown – Motorola Solutions, Inc.>: Just to dimensionalize it, again, we had \$72 million of revenue in Q4. We're planning on approximately \$250 million for the full year for Psion in 2013. As Mark referenced, they're purpose-built devices that are extensions of what we do now, vehicle-mount terminals in a forklift, very rugged cold stored applications, cold storage that'll tolerate subzero temperatures. And their portfolio is Microsoft-oriented as well, so it's very similar, if not identical, to the enterprise mobile computing segment.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: And as you think about the profitability of the business that we said we'll get it to profitable – it will be below the levels that we see for the rest of the business, probably something below 10%, above 5%, in that range. If you think about operating expenses in that business, when I gave the commentary earlier, you should make sure that as you factor in our year-over-year growth and our operating expenses effectively, the incremental Psion-related spend to support that business, partially offset by the improvement in the pension cost that I had talked about. And with all of that, you should then plan relatively comparable with the impact of annual merits. So spending will be up slight – up a bit year-over-year in the aggregate. But as a percentage of sales, it will be – it will improve.

<Q – Ben Bollin – Cleveland Research Co.>: And then could you walk us through where U.S. cash versus offshore cash is and your CapEx targets for 2013. Thank you.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: Sure. So U.S. cash, in excess of 40%, I think 42% or 43%. I think we're \$1.5 billion U.S. cash of the total \$3.6 billion. Your question on CapEx was that for 2012 or...

<Q – Ben Bollin – Cleveland Research Co.>: 2013.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: So as we think of the model, we're kind of simplifying a bit to kind of a 50% – 50% allocated to a combination of share repurchase or acquisition, 30% consistent for dividends and approximately 20% for CapEx. We did – CapEx for the year, we did about \$185 million to \$190 million for 2012. You should expect us to see higher levels of CapEx next year, and the biggest growth segment there would be in the area where we invest in revenue-type opportunities, build own operated opportunities you've heard us talk about in the past. So more success-based capital will be our goal if – and that is really the main driver for the – what you're going to see year-over-year in the increase in capital expenditures as we get into 2013.

<Q – Ben Bollin – Cleveland Research Co.>: Thank you.

Operator: And I'll turn the floor back over to Mr. Shep Dunlap, Vice President of Investor Relations for any additional closing remarks.

Shep Dunlap, Vice President-Investor Relations

All right, thanks. I'd like to remind everyone the details outlined, highlighted items, our GAAP to non-GAAP P&L reconciliations and other financial information can be found on our website. An audio replay, together with today's slides, will be available on the site shortly after this call.

As mentioned at the outset, during the call, we've made a number of forward-looking statements within the meaning of applicable federal securities laws. Such forward-looking statements include, but are not limited to, our comments and answers relating to the following topics: future sales growth and operating margins, including by segment and region; earnings per share outlook; operating cash flow improvements; the amount of other income and expense; future effective tax rates and cash tax rates; future pension expense and cash contributions; the amount of future share repurchases and dividends; expected iDEN decline; demand trends for our business and products, such as ASTRO, TETRA, LTE and WLAN; the impact of narrow-banding and the acquisition of Psion, including revenue and gross margin; capital allocation framework, including net debt; new products and solutions introductions. Because forward-looking statements involve risks and uncertainties, Motorola Solutions' actual results could differ materially from those stated in these forward-looking statements. Information about the factors that could cause, and in some cases, have caused, such differences, can be found in this morning's press release, on pages 9 through 22 in Item 1.A of our 2011 Annual Report Form 10-K and Motorola Solutions' other SEC filings.

Thanks and we look forward to speaking with you soon.

Operator: Ladies and gentlemen, this does conclude today's teleconference. A replay of this call will be available over the Internet in approximately three hours. The website address is www.motorolasolutions.com/investor. We thank you for your participation and ask that you please disconnect your lines at this time. Have a wonderful day.