

Motorola Solutions, Inc.  
Q2 2012 Earnings Conference Call  
Wednesday, July 25, 2012

**PARTICIPANTS**

**Corporate Participants**

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**Shep Dunlap** – Vice President, Investor Relations  
**Greg Brown** – Chairman and Chief Executive Officer  
**Edward J. Fitzpatrick** – Chief Financial Officer & Executive Vice President  
**Mark Moon** – Executive Vice President, Sales and Field Operations

**Other Participants**

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**Peter Misek** – Analyst, Jefferies & Co., Inc.  
**Jeff Thomas Kvaal** – Analyst, Barclays Capital, Inc.  
**Tavis Christian McCourt** – Analyst, Raymond James & Associates  
**Jasmeet S. Chadha** – Analyst, Sanford C. Bernstein Ltd.  
**Craig M. Hettenbach** – Analyst, Goldman Sachs & Co.  
**Ehud A. Gelblum** – Analyst, Morgan Stanley & Co. LLC  
**Jim Suva** – Analyst, Citigroup Global Markets (United States)  
**Keith M. Housum** – Analyst, Northcoast Research Holdings LLC  
**Tim Long** – Analyst, BMO Capital Markets (United States)  
**Kulbinder S. Garcha** – Analyst, Credit Suisse Securities (USA) LLC (Broker)  
**Matthew Hoffman** – Analyst, Cowen & Co. LLC

**MANAGEMENT DISCUSSION SECTION**

**Operator:** Good morning, and thank you for holding. Welcome to the Motorola Solutions Second Quarter 2012 Earnings Conference Call. Today's call is being recorded. If you have any objections please disconnect at this time.

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](http://www.motorolasolutions.com/investor). At this time all participants have been placed in a listen-only mode and the line will be open 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**

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Thank you and good morning. Welcome to our call to present second quarter results for Motorola Solutions. With me this morning are Greg Brown, Chairman and CEO; Ed Fitzpatrick, Executive Vice President and CFO; and Mark Moon, Executive Vice President, Sales and Field Operations. Greg and Ed will review our second quarter results along with commentary and Mark will join us for Q&A.

We have posted an earnings presentation and press release at [motorolasolutions.com/investor](http://motorolasolutions.com/investor). These materials also include GAAP to non-GAAP reconciliations for your reference. As always, it's important for you 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 would like to turn the call over to Greg.

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**Greg Brown, Chairman & Chief Executive Officer**

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Thanks, Shep. Good morning and thank you for joining us today. Q2 highlighted another strong quarter for Motorola Solutions as we delivered strong sales growth and operating leverage resulting in excellent earnings growth. In addition, we continue to place a high priority on the return of capital to shareholders through our quarterly dividend and share repurchase program.

This morning we reported record second quarter sales of \$2.1 billion which represents an increase of 8% from Q2 of last year. On a GAAP basis, net earnings were \$0.60 per share from continuing operations compared to \$0.14 in the year ago quarter. Non-GAAP net earnings from continuing operations were \$0.70 per share compared to \$0.54 per share in Q2 of last year which represents a 30% increase. For the remainder of this call we'll reference non-GAAP financial results unless otherwise noted.

Our Government business revenues increased 14%, a record second quarter. This reflects broad-based growth across all of our regions driven by a combination of factors including core market growth, new product introductions and narrow banding in the United States. Operating margins in the Government business improved 330 basis points year-over-year to 16.4% due to the sizeable growth in sales across our portfolio, coupled with our continued focus on cost management.

In our Enterprise business, sales declined 2% from a year ago quarter including an anticipated iDEN decline. We've seen this business impacted by a number of factors including most notably, a tougher macroeconomic environment, especially within Europe, coupled with foreign currency headwinds.

Let me spend a moment on capital allocation. During Q2 we paid \$64 million in dividends and repurchased \$439 million in stock bringing the total repurchase amount to \$2.9 billion since the program was announced approximately 12 months ago. One year ago we initiated a dividend, authorized a repurchase program and introduced a capital allocation framework. Today I'm pleased to announce that the board of directors has approved an increase in our quarterly cash dividend to \$0.26 per share, an increase of 18%. In addition, our board has increased our share repurchase authorization by \$2 billion bringing the total to \$5 billion.

These announcements reflect the continued confidence we have in our business as well as our earnings growth and cash flow generation opportunities. Ed will speak more on this topic later in the call. I'll now turn it over to Ed Fitzpatrick to discuss our financial results in more detail. I'll then return to discuss operational highlights and provide additional commentary and perspective on our overall business performance.

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

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Thanks, Greg. Q2 was another strong quarter of earnings growth and cash flow generation for MSI. Along with revenue growth of 8%, our focus on operating leverage yielded an increase in operating earnings of 15% compared to last year despite an \$11 million increase in U.S. regular pension expense and \$20 million of unfavorable FX impact to operating margins. The unfavorable FX impact was driven primarily by the weakening euro.

We saw broad-based revenue growth in our Government business with record second quarter sales of \$1.5 billion, an increase of nearly 14% from the prior year. Operating margins in the Government business improved 330 basis points from 13.1% to 16.4%. This leverage was driven by strong sales growth and our continued focus on cost management.

Enterprise sales declined 2% to \$689 million. Operating margin in the Enterprise business declined 340 basis points. The margin decline was primarily attributable to changes in sales mix along with foreign currency headwinds.

Turning to the earnings, earnings from continuing operations were \$0.70 per share compared to \$0.54 per share a year ago, a 30% increase. Operating expenses were \$721 million or 33.6% of revenue which represents a 210 basis point improvement from the year ago quarter. Our operating earnings for the second quarter were \$350 million or 16.3% of sales compared to \$304 million or 15.3% in Q2 of 2011.

Total other income expense was a net expense of \$38 million in the quarter compared to a net expense of \$17 million in Q2 2011. The largest driver of the year-over-year increase in this line was a result of significant devaluation of a number of currencies versus the dollar, most notably the euro. This negatively impacted the quarter by \$21 million compared to Q2 of last year. In addition, we incurred a \$6 million loss associated with the early debt repayment made in June. Going forward, we expect this item to be a net expense of approximately \$20 million to \$25 million which includes incremental interest expense associated with the net increase in our debt levels during the quarter.

Our effective tax rate was 33.1% for the quarter. For full year 2012 we expect our effective tax rate to be 34% to 35%. Cash flow from operations was \$254 million during the quarter, driven by strong operating earnings and solid working capital management. With respect to working capital, inventory management continued to improve and we achieved 8.9 turns compared to 7.5 in the year ago quarter. I'm also pleased with our receivable balance as it continued to decline from Q1 driven by improved collection days and the continued liquidation of certain notes receivable we retained from the Networks business we sold last year.

We ended the quarter with \$3.7 billion in cash and investments and approximately \$1.9 billion in debt, a net increase of \$350 million in long-term debt from the prior quarter. We issued \$750 million of new debt with a coupon of 3.75% and retired \$400 million of notes due in November.

As Greg mentioned, we purchased \$439 million in stock during the quarter, which brings us to over \$2.9 billion in share repurchases since the inception of our plan. We've reduced our share count by approximately 19% since the start of the program a year ago with the purchase of 63.7 million shares at an average price of \$45.80. In addition, we paid \$64 million in dividends during the quarter. Year-to-date, we returned over \$1.9 billion to shareholders via share repurchases and dividends.

We have shared with you our clear set of priorities with respect to capital return and allocation. One of those priorities is moving to a net debt position by the end of 2014. With that as background, I would now like to discuss the capital return announcement that Greg referenced earlier. Today we announced a

quarterly cash dividend of \$0.26 per share. This represents an 18% increase over the prior quarterly dividend. We also announced that our board has authorized an increase of \$2 billion to our share repurchase program.

With respect to our long-term capital allocation framework, we believe the current mix that we initially outlined is still appropriate based on our capital needs and goals. This mix is to allocate 25% of operating cash flow to capital expenditures, 30% to dividends and 45% to a combination of share repurchases and acquisitions.

Now turning to our Q3 and full year outlook. For Q3, we expect sales growth of approximately 3% over the third quarter of 2011. Our outlook is for non-GAAP earnings per share of \$0.69 to \$0.74 from continuing operations based on our Q2 ending share count. This compares to non-GAAP EPS in Q3 2011 of \$0.66 per share. Consistent with prior quarters this outlook excludes stock based compensation and intangible amortization expenses of \$0.12 per share. That item is historically highlighted in our quarterly earnings releases.

Moving to full year 2012, we are now increasing our outlook from approximately 5%, to 5% to 6% growth with operating margins remaining at approximately 17% of revenue. This overall outlook assumes the euro at current rates. We now expect full year growth for Government to be upper single digits while Enterprise growth for the year is now estimated to be relatively flat. This revised Enterprise segment view, which is inclusive of the anticipated iDEN decline, accounts for a more challenging macro environment along with the FX headwinds we have mentioned.

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

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**Greg Brown, Chairman & Chief Executive Officer**

Ed, thanks. In our Government business sales for the quarter were \$1.5 billion, an increase of 14% over Q2 2011. We saw strong growth in all regions. Profitability also improved with operating earnings growing to 16.4% of sales this quarter compared to 13.1% in Q2 of last year.

We've talked previously about some of the growth drivers for public safety that include interoperability, spectrum efficiency, and compelling return on investment. Customers are seeking to overcome spectrum constraints by selecting our latest version of ASTRO 25 with P25 Phase II which is nearly twice as efficient as required by the current FCC narrow band mandate in the United States. For example, Apopka, Florida recently celebrated the world's first deployment and acceptance of a dual mode ASTRO 25 system with Phase II P25 TDMA. They doubled their channel capacity for secure encrypted communications without the need for adding frequency bands, antenna sites, or stations. And our APX radios provide multi-band technology in one device, allowing first responders the freedom to connect between multiple frequencies for interoperability between agencies, improved mobility and response time.

Another example of a Phase II TDMA system is Maryland's First Responder Interoperable Radio System Team or Maryland FIRST as it's known, a statewide radio communication system designed for state and local public safety officials to communication with each other on a common system. And this quarter the City of Toronto selected our ASTRO technology with Phase II TDMA for a 700 megahertz shared police, fire and EMS system implementation.

Other significant ASTRO wins from this quarter include the State of Ohio for \$80 million; Lakeland, Florida for \$12 million; State of Pennsylvania police for \$10 million; and Centre County, Pennsylvania for \$13 million.

In Latin America, our ASTRO solution was selected by the Chilean police to cover the entire country with both trunking and conventional mode. We also sold a \$37 million ASTRO system to Ecuador's National Telecommunications Corporation for the National Police.

In May, we participated in TETRA World Congress in Dubai where we introduced the MTP3000 handheld radio, which redefines mission critical performance with superior audio quality. A TETRA equipped version of our vision for the ultimate police patrol vehicle demonstrated the latest technologies and integrated controls to enable streamlined decision making.

In China, we were awarded a \$3 million TETRA system with Beijing Metro and a multi-million TETRA contract for the mass transit railway in Hong Kong. The London Underground recently chose Motorola Solutions TETRA equipment for a \$6 million system expansion as well.

Among our Integrated Command and Control Applications portfolio, Randall County, Texas contracted with us for a \$2 million advanced computer-aided dispatch solution that uses GPS to enable dispatchers to locate officers and vehicles, while officers can run license checks from their patrol car without calling dispatch. This solution also incorporates a public safety LTE network and expands the LTE core which is owned by Harris County, Texas.

The evolution of public-safety LTE in the U.S. continues as FirstNet and the related D-block governance structures take form. As we've said before we don't anticipate revenues from LTE until the back half of 2013. Meanwhile, the market for public-safety LTE is global as the tools and capabilities from this vital technology benefit public safety responders and citizens. This quarter we launched a trial with the Brazilian Army and in May nearly 1,000 government officials and customers gathered in Tel Aviv for a showcase to explore the benefits of public-safety LTE by Motorola Solutions. In addition, we've seen continued interest and activity from several countries in the Middle East.

In our Professional and Commercial Radio tier, double digit growth continued. We also expanded our individual-leading MOTOTRBO series with the release of the XPR 7000 and XPR 3000 series digital portables designed to meet the communications needs of public service, manufacturing, education, hospitality and service industries. These new radios add to a growing family of devices giving customers a choice of different form factors and feature sets, as seen in the ultra thin and lightweight SL series portable and the XPR 5000 series mobile which both launched earlier this year.

Moving onto our Enterprise business, sales in the Enterprise segment were \$689 million, a 2% decrease from Q2 of 2011. Operating earnings were 16% of sales compared to 19.4% last year.

In June, we announced a \$200 million cash offer to acquire Psion another pioneer in the rugged mobile computing industry. Psion works directly with its customers and partners to also develop mobile computing hardware, software and services that meet their specific rugged mobile computing needs. The acquisition of Psion will allow us to strengthen our portfolio with ruggedized handheld products and vehicle mount terminals, and deepen our presence in the global markets in which we compete. The acquisition also supports our international growth strategy by providing an attractive global base of customers. Psion brings a talented team with extensive mobile computing design expertise and professionals with key industry experience and we expect this transaction to close in Q4.

We also hosted events in Boston and New York to share our view on the future of retail. Drawing from our deep domain expertise and world class portfolio we framed a vision where retailers will rely on advanced solutions to control the path to purchase and turn browsing into buying and shoppers into brand advocates. During the events, we previewed new devices like the SB1 wearable smart badge which

includes a personalized task manager, scanner and push to talk voice capability along with the MC40, a sleek customizable touch screen solution that runs on Android and offers enterprise class durability, securability, secure payment processing and powerful voice connectivity.

Notable wins in the Enterprise for the quarter included a \$2 million order from Tesco which includes our MC17 devices and personal shopping system; and a \$3 million CVS purchase of wireless LAN infrastructure for their stores. The UKMail Group, the largest independent parcel, mail and logistics company in the UK selected our global services team for a \$2 million contract to manage 2,000 devices with asset tracking, software upgrades and security management.

Our industry leadership was recognized by Gartner with a strong positive evaluation in their MarketScope report for the ruggedized handheld computer market noting several areas including devices for harsh environments, specific market solutions and vertical solutions, and new task specific devices. We also hosted over 160 developers from across the Americas where we announced new investments for our developer community as part of the PartnerEmpower program. Attendees learned how to architect next generation solutions using our latest tools, platforms, products and technologies, including the RhoMobile Suite 2.0 our latest tool for applications developers which has been downloaded over 20,000 times.

Turning to a regional view for the total company. North America and Latin America both grew by 10% driven by robust demand in Government. EMEA grew 5% with double digit growth in Government. Growth in Asia of 5% was balanced across both Government and Enterprise segments.

So in closing, I would like to thank our 21,000 employees globally for their focus on providing solutions to our customers. Q2 was another very good quarter for Motorola with strong growth, continued operating leverage and additional capital returns to shareholders. While we're pleased with these results, we remain clearly focused on execution, investing in new products and solutions, increasing our top line, earnings growth, free cash flow generation and return of capital.

#### **Shep Dunlap, Vice President, Investor Relations**

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Thanks, Greg. Before we begin taking questions we want to remind callers to limit themselves to one question along an additional follow-up so that we can accommodate as many participants as possible.

Operator, could you please remind our callers how to place a question.

## **QUESTION AND ANSWER SECTION**

**Operator:** Thank you and our first question comes from Peter Misek with Jefferies. Please go ahead, your line is open.

**<Q – Peter Misek – Jefferies & Co., Inc.>:** Thanks, gentlemen. Just a question on R&D. Obviously as we have LTE ramping we have had R&D investments. You've invested well in front of that as you have with previous major network changes. Can you walk us through how we should think about R&D for the next few quarters. Can we see R&D level off and maybe even come down as a percentage of sales, and are there any sort of more temporal expenses there that we could see managed as we see the shift happening. Thanks

**<A – Greg Brown – Motorola Solutions, Inc.>:** I just think you'll see us continue to focus on cost management overall as we look forward for the second half of the year. In terms of R&D, we've talked in the past that we would expect R&D and G&A and other major functions on an annual basis to typically trend and improve from a leverage standpoint as a lower percentage against revenues. So when we look at below gross margin costs against overall revenues we would expect to be able to continue to get improvement year-over-year.

**<Q – Peter Misek – Jefferies & Co., Inc.>:** And if I can just sneak a follow-up on the capital structure comment made about going net debt position by 2014. Can you help us understand the process that you and the board are going through to think about what the appropriate capital structure is? What are you benchmarking? How should we look at that evolution? Are we going to look at a reverse auction for buybacks. Thanks very much.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** So Peter, I think the strategy is just a continuation of what we outlined last year with the capital allocation model: a piece ascribed to dividend 30%, 25% to CapEx and then 45% to share repurchase and/or acquisition. So I think that hasn't changed.

The other key tenet is that the capital structure really will be driven off of an adjusted debt to adjusted EBITDA metric of around 2 such that the debt levels will be calculated based upon our availability to bear and our improvements in EBITDA. That's really the way we're looking at it and the way we're modeling it going forward.

**<Q – Peter Misek – Jefferies & Co., Inc.>:** Perfect, thanks.

**Operator:** Next we'll go to Jeff Kvaal with Barclays. Please go ahead, your line is open.

**<Q – Jeff Kvaal – Barclays Capital, Inc.>:** Yes, Ed, Greg, thanks very much. Could you go into a little bit more into the change in the revenue picture a little bit? I think if we cycle back a couple of quarters certainly the Enterprise outlook was a little bit brighter. Could you help us understand that a little bit better? I think secondly 3% year-over-year growth is not what's been in the range of the target model over the past couple years. Could you help us understand what is happening in that quarter in particular and then why the December quarter would be better?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Just a couple of things, Jeff, as we look to the remainder of the year, we now expect the Government segment to grow in the upper single digits and Enterprise to be relatively flat, of course including iDEN for the year. I think the moderation and the update in Enterprise is a reflection of the macroeconomic conditions, particularly in Europe as well as the foreign currency headwinds. Enterprise actually grew in all other regions.

If you look at Q3 and you look at our revenue guidance of 3% I remind you that a year ago our Q3 comp of last year was an exceptionally strong quarter overall at 10% so that's one factor to consider. We expect continued decline in the iDEN business in Q3 of approximately \$20 million and we expect the headwinds around foreign currency in Q3 to be about approximately \$30 million of top line. So when you think through the previous year comps, you incorporate the continued decline of iDEN and then the incremental headwinds of foreign currency led by the euro, those are the ingredients that factor in.

Now having said that, we're still raising full year revenue guidance from about 5% to 5% to 6% and we'll continue to manage our costs closely and look to get continued improvement in leverage over the next few quarters.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** Jeff you also asked I think a question about linearity or seasonality in the quarter. I heard you say something about Q4. As we've talked about before as our quarters progress Q1 is typically always the lowest quarter. We step function up to Q2. Q3 is typically in line with Q2, sometimes up, sometimes down and then we typically do step function up in Q4 from a seasonality prospective.

**<Q – Jeff Kvaal – Barclays Capital, Inc.>:** Okay. Thank you. And that \$20 million and \$30 million impact that you referenced, Greg, that is year-over-year impact? Or sequentially?

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** I think Greg talked about the top line about \$30 million top line impact for Q3. I would say it's \$30 million or \$35 million and that contemplates us in and around the current euro exchange rate of 1.21 today.

**<A – Greg Brown – Motorola Solutions, Inc.>:** But it's year-over-year.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** Year-over-year, yes that's right.

**<Q – Jeff Kvaal – Barclays Capital, Inc.>:** Great, year-over-year, thank you.

**Operator:** Next we will go to Tavis McCourt with Raymond James. Please go ahead. Your line is open.

**<Q – Tavis McCourt – Raymond James & Associates>:** Thanks, I was wondering if you guys could talk about some of the backlog statistics that you talked about on the last call for Enterprise and Government and then a quick one for you, Ed, on I think there was a rider on the Highway Bill that had some impact to pension fund accounting and was wondering if you could run us through the impact if you know yet on your pension fund issues? Thanks.

**<A – Mark Moon – Motorola Solutions, Inc.>:** If we look, Tavis at our Q2 backlog it's roughly \$5.9 billion, which is down about \$100 million from what we discussed last quarter. Government relatively flat and Enterprise was down. When we normalize for FX, really the backlog was basically flat. So as we look at it I think we're not surprised by the decline in Enterprise as we have seen pressure there. But we still feel fairly confident about our visibility and as we look at our guidance going into the quarter. So, relatively speaking backlog has remained consistent to slightly down.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** And on the pension piece, Tavis, as you know and I saw your note on it. I think you had it right. The change in the calculation of the discount rate should lead to a higher discount rate which would lead to a lowering of the required annual cash funding. So that's something that we would look at and contemplate if that makes sense for us strategically going forward to close the funding deficit, Also included in the bill are some PBGC fees that are scheduled to go

up starting in 2014. So we're going to assess all of that in line with the overall strategies on pension as we go forward here and we'll come back to you later in the year with our plans to address.

**<Q – Tavis McCourt – Raymond James & Associates>**: Great, thanks. And did you talk about an Enterprise number ex-iDEN?

**<A – Greg Brown – Motorola Solutions, Inc.>**: No, I was just commenting earlier that Enterprise was up outside of Europe and the regions without iDEN it was up slightly.

**<Q – Tavis McCourt – Raymond James & Associates>**: Great, thank you.

**Operator**: Our next question comes from Jasmeet Chadha with Bernstein. Please go ahead. Your line is open.

**<Q – Jasmeet Chadha – Sanford C. Bernstein Ltd.>**: I had a question on Enterprise. So it dropped about 30% in 2009 which was clearly an exceptional year. What sort of downside could we expect this time in a worst case scenario. And if you're worried today on what you see into the second half and what kind of measures would you take if there was a pronounced weakness. And then a follow-up on Government. The strength today in this Government revenues come from and is there any reason that we should worry that it could snap back in 2013?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I'll take the last part of that three-parter first on Government. Obviously, we're very pleased with a record Q2 of 14%. If we look at the growth of that and what makes it up, I would say 11% of the 14% are coming more or less from half of our core market growth, which includes continued expansion in both North America and international and the other half from a continued investment in R&D that has allowed for the expansion of new products and innovation. And probably 3% as best our estimate of the 14% is driven by narrow banding here in the U.S..

Now that said, we typically have structural drivers that continue to require our customers to upgrade and invest, whether it's in the prior periods years ago it was Nextel rebanding. It continues to be analog to digital not only here under the narrow banding mandate in the U.S. but the drive for analog to digital internationally. There will be some number of customers that won't meet the narrow banding mandate by the end of year so they'll continue to invest in more spectrum-efficient radios and mobiles and infrastructure. And then also as you know there's a number of aged customer installations that are there throughout North America and in other geographies that we will look to update and migrate accordingly.

So if you look at the 14%. Our best estimate is that 3% of the 14% is narrow banding in the U.S. but 11% is still very strong driven by core market growth and the expansion of our new products. In terms of Enterprise, I'll let Mark say a few words.

**<A – Mark Moon – Motorola Solutions, Inc.>**: So if you think about Enterprise, clearly, I think Ed highlighted before as we think about the year and we have guided now to relatively flat -- it is down from what we've traditionally seen and what we have set as expectations. Now with that said, I would say it's primarily macroeconomic driven because we have held ASPs and we believe we've held market share in all of our categories, at least all of our major categories with the possible exception of wireless LAN.

The other piece that I would say around Enterprise again, as Greg mentioned, was the growth in every region still gives us somewhat confidence when you say without iDEN and even in Europe that was only slightly down I would remind you that the previous year the growth in Europe for Enterprise was 39%. So, again, I think given the headwinds that we've got there, the Enterprise businesses has held. So as we go

forward we'll continue to monitor it, continue to give you guidance but all in all I feel pretty pleased with the way we've held and the way we've performed and continue to monitor as we go forward.

**<Q – Jasmeet Chadha – Sanford C. Bernstein Ltd.>**: Sure, thanks. Just one follow-up on that. So when you say that regionally Enterprise was strong or up year-on-year outside of Europe is that ex-iDEN or including iDEN.

**<A – Mark Moon – Motorola Solutions, Inc.>**: That's correct.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: Without iDEN.

**<Q – Jasmeet Chadha – Sanford C. Bernstein Ltd.>**: Okay. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: The one big region is Latin America. So I think his comment is correct. And I think Mark may have mentioned it but I think in Europe we talked last quarter that Enterprise was down primarily driven by FX otherwise it was relatively flat. This quarter it was down due to FX; actually we were up net of the FX. I think we're holding our own in EMEA.

**<Q – Jasmeet Chadha – Sanford C. Bernstein Ltd.>**: Thank you.

**Operator:** We will next go to Craig Hettenbach. Please go ahead, you are with Goldman Sachs.

**<Q – Craig Hettenbach – Goldman Sachs & Co.>**: Thank you. Greg, just following up on the revised revenue guidance 5% to 6%. Anything else you can touch on in backlog or just visibility this quarter versus a quarter ago. I know you mentioned narrow banding but any other things that gives you confidence that nudged the growth rate up a little bit.

**<A – Greg Brown – Motorola Solutions, Inc.>**: I would say generally our visibility levels remain unchanged, Craig, which I think is good news. We're just trying to have the guidance reflective of the macro conditions in which we're competing but as Mark referenced backlog normalized for foreign exchange was relatively flat and we're focused to execute on Q3, and knowing that 3% while it doesn't sound fantastic when you look at the sub components and the ingredients and compared to a very strong comp previous, I think we'll continue to perform as we expect and we'll manage all the levers available to us and we're not confused in terms of what needs to be done.

**<Q – Craig Hettenbach – Goldman Sachs & Co.>**: Got it, thanks for that and then, Ed, just a follow-up on the buyback. In the press release it said no expiration date. Anything to read into there versus the prior programs where you had it out kind of 18 months or so.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: I think – Greg can add, but I think our coming out of the gate as a separate public entity; as MSI, we thought it was appropriate to have an end date there to ensure that everyone knew, investors and analysts alike that we had a sense of urgency on return of capital to shareholders. We think we've demonstrated that. We will continue with the program and be deliberate over a time line here but also be opportunistic as we were in prior periods. So I think we're going to get on it as you have seen us do in the past and we'll continue to execute.

**<Q – Craig Hettenbach – Goldman Sachs & Co.>**: Got it. Thank you.

**Operator:** Our next question is from Ehud Gelblum with Morgan Stanley. Please go ahead, your line is open.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>:** Hi, thank you very much, couple questions. First of all, Greg, if we look at the Government side, the guidance for the full year of upper single digits for Government, you did 11.5% growth in Q1 and 13.6% in Q2. So to get to upper single digits for the year, that would imply a huge deceleration in Q3 and Q4, something in the order of 3% to 4% year-over-year for those two quarters. Why would you think that is factoring into your guidance? Putting aside the Enterprise side of the business, I just think Government – why is this falling down so much? Does this have to do with narrow banding? Does it have to do with macro and just understanding that a little bit better.

And then Ed, want to understand a little better about the FX and I heard but I may have misunderstood the \$25 million below the line expense that shows up in the P&L, is that hedging, is that where the FX impact is or is that kind of sprinkled throughout the earnings statement and how do we account for FX credit going forward?

**<A – Greg Brown – Motorola Solutions, Inc.>:** Ehud, on the first part, look I just think that we've had fantastic growth, obviously records in Q1 and Q2. We're just being a little bit more tempered. We know that Q3 as a comp was higher as I mentioned. We have some incremental headwinds as do many other companies around foreign currency. I just think we're being cautious and in this environment while we're confident of the business and confident as ever in the product portfolio and the underlying drivers – I think we think it makes sense to be a little bit more cautious now.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>:** Does FX impact the revenue or does it impact us below the line.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** It's a combination of both. So if I talk about Q2, we talked about \$20 million of impact to operating margins as a result of the decline largely driven by the euro. The top line growth impact there was about \$30 million and the margin impact was about \$20 million. So if you look into Q2 there was also bottom – there was also below operating earnings related charges you mentioned about \$20 million. That was driven by balance sheet – the fluctuation in the foreign currency in the net unhedged positions caused about a \$20 million impact, as we move into Q3, I would say you should expect relatively similar impact and our guidance contemplates that. For the operating margin piece I would say the piece below operating earnings, the other income expense should be significantly less than that in the second quarter.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>:** So if I got that right, there was a \$30 million impact to revenue from FX, \$20 million to -

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** That's right,

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>:** – to OpEx or operating margin.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** Operating margin.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>:** So there was a \$10 million gain from OpEx that offset the \$30 million – part of the \$30 million? Revenue?

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>:** I'm not sure where you're going – we could take it offline in the reconciliation with you.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>:** Okay. So the net impact was \$20 million to operating income and \$20 million below the line.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: That's right.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: And you're saying next quarter assuming another \$20 million to operating income most of it which comes on the revenue line which is where Greg's conservatism comes from the Government side and then less below the line.

**<A – Greg Brown – Motorola Solutions, Inc.>**: That's right.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: That's right Ehud.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: Okay. A couple other things. Why are taxes going up? Did you guide 34% to 35% for the back half of the year or did you guide that for the full year and then did you -- I'm not sure if you said how big iDEN was this quarter and what it is in your guidance for Q3?

**<A – Greg Brown – Motorola Solutions, Inc.>**: What was the second part of that question?

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: Taxes, they were 33% this quarter. You're guiding 34% to 35% and I wasn't sure if that was again for the full year or for next quarter and how big iDEN was.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: His question was iDEN.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: iDEN.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: The guidance was really for the full year. Still around 34% to 35%. So that hasn't changed. What we're figuring there too is the R&D tax credit right. So if that does come through it will be at the lower end, if it doesn't it will likely be at the higher end.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: But you had as low -- you had a 33.3% this quarter so to hit 34% to 35% for the year we're talking about 35% to 36% for Q3 and Q4.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: I think there's discrete items and there's timing-related items that are driving that. So I think -- as you forecast you should forecast something at 34 to 35 for the full year. So a bit higher in the second half.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: Okay.

**<A – Greg Brown – Motorola Solutions, Inc.>**: And Ehud, in terms of iDEN, it's in line pretty much with our expectations in terms of the continued decline; for the year 2012 we're now tracking for iDEN to be about \$270 million in revenue for the year.

**<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>**: Okay. Terrific. Appreciate it, thank you.

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

**Operator:** Your next question comes from Jim Suva with Citi. Please go ahead; your line is open.

**<Q – Jim Suva – Citigroup Global Markets (United States)>**: Thank you and congratulations to you and your team there at Motorola Solutions. My first question is a clarification and I'll just add my follow-on immediately after that. But for the clarification for the outlook, am I correct it does not include acquisition revenues of Psion in your outlook? And then my follow-up question is, can you just help investors and us

bridge the gap between your strong outlook and results compared to the budgetary constraints that we're seeing and the workforce reductions. We know that in the first responders there's a priority but definitely we're seeing when the police and firemen retire the various communities are replacing them with less people rather than more. Can you just help us understand that? And then on the outside, is it just basically it's more sticky business and if so when we come into a more favorable economy does that just mean Motorola Solutions may not see quite the upside or how can we think about – it can't be heads you win, tails you win also. Help us understand and connect those. Thank you.

**<A – Greg Brown – Motorola Solutions, Inc.>**: So in order of your questions, you're right Psion is not included in our second half guidance. The transaction is not closed yet. We're anticipating that to be, Jim, in Q4.

Second, we continue to operate under the constraints of austerity if you will, with governments across the world but interestingly and you've seen the Government post 14% in Q2 our segment, our state and local business in particular is really strong and I think that's a reflection on – we've talked about it before – the prioritization of mission-critical public safety, the deployment of additional technologies beyond just radios, whether it's video surveillance or integrated command and control or dispatch software or other kinds of technology deployments that make first responders more productive. It's a continued reflection on the high return on investment of what we sell. Remember with all of this there's no usage associated on a private network as these devices and subscriber unit gets deployed unlike a cellular system that has permanent charges, There is no usage cost at all, And the durability and reliability and long install base of 10, 15, sometimes north of 20 years all lend themselves positively as drivers for first responders to prioritize this.

I think your last comment is also correct that what we have found with our business overall is that it is – it's stable. It is sticky and we believe largely sustainable and often times our install base and our incumbency allow us to continue the relationships with client and allow us the dialog to add equipment and update and refresh and sell new solutions on top of the relationships and systems we have and we think that's a good position to be in.

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

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

**Operator**: The next question comes from Keith Housum with Northcoast Research. Please go ahead; your line is open

**<Q – Keith Housum – Northcoast Research Holdings LLC>**: Good morning gentlemen, thanks for taking my call. Gentlemen, can you just shed a little bit of light on what you're seeing in Asia. I see 5% growth year-over-year. It's probably a little bit lower than I anticipated and I know it's an area of focus for you guys. But what are you seeing in Asia that perhaps is driving a little slower growth than what you guys have showed in the past few quarters.

**<A – Mark Moon – Motorola Solutions, Inc.>**: Keith, I do agree with your comment that our growth in Asia, while we talked about kind of mid single digits for both Enterprise and Government, it's less than, number one what we've been producing in the past and also what we've said was expectations for Asia.

With that being said, I also think though the primary drivers as we look at the business was really around the systems and the timing of the systems and project business there as we think about be what's going forward. So, China did slow to mid single digits. Again, we have not seen that kind of growth in China. We

traditionally have expected China to be stronger but for the full year we still anticipate that Asia Pac will be double digit growth and we expect China to be strong double digit growth for the year so we're still very opportunistic and very, I guess we view Asia still as a strong growth area for us as we look to go forward.

**<Q – Keith Housum – Northcoast Research Holdings LLC>**: Okay. Great, thank you. And then finally as you guys exited the quarter, were there any changes in the business that you saw in – I guess in the previous two months that give you pause or give you second consideration to your activity going into 3Q?

**<A – Greg Brown – Motorola Solutions, Inc.>**: That gives us – what was the last part? Anything in the last-

**<Q – Keith Housum – Northcoast Research Holdings LLC>**: That gives you pause going into the third quarter?

**<A – Greg Brown – Motorola Solutions, Inc.>**: Not really, no. As I mentioned earlier I think our visibility has remained reasonably consistent. We've moderated to adjust for the segments of Government being a little stronger than we thought; anticipating and managing the Enterprise headwinds mainly out of Europe and macroeconomic and with foreign currency, but – I mean obviously foreign currency was the one in the last 30 to 45 days where the euro dropped pretty sharply from 1.32 or 1.31 to 1.22. We certainly didn't anticipate that. That's as Ed talked about the guidance for the second half of Q3 and Q4 assumes the euro at about 1.21. So we think we've incorporated that in accordingly.

**<Q – Keith Housum – Northcoast Research Holdings LLC>**: Okay, great. Thank you.

**Operator**: Next we'll go to Tim Long with the Bank of Montreal. Please go ahead. Your line is open.

**<Q – Tim Long – BMO Capital Markets (United States)>**: Thank you. Two questions if I could. First on the Enterprise side particularly. Could you talk a little bit about Windows and the transition to Windows 8 and what do you think that will mean for the Enterprise customer base? Is there a risk that on top of the macro risks, there's some potential product transition as Windows develops? And secondly, Greg, if you could -- you mentioned visibility the same, but I'm just curious if you could scale for us how with the bigger ramp in Q4 that you're looking for, how would you compare your Q3 and your Q4 visibility right now? Does it drop off where you have a much lower confidence in it or if you could scale for us the difference between – looking out that extra quarter?

**<A – Greg Brown – Motorola Solutions, Inc.>**: What was the first part of your question, Tim.

**<Q – Tim Long – BMO Capital Markets (United States)>**: Windows 8 and just impact on Enterprise business.

**<A – Greg Brown – Motorola Solutions, Inc.>**: Yeah, so our mobile computing portfolio in all products is supported by Microsoft with the exception of our rugged tablet the ET1 which came out with Android. We did that because the operating system that was required was a touch based OS and Microsoft is in the middle of transition.

The majority of our Microsoft product is windows 6.5.3 or Windows embedded handheld and we're anxiously enthusiastic about Windows Phone 8. That's in the market in October and then needs to be incorporated with the appropriate Enterprise features, Enterprise-class features that would make it attractive for us.

We've always been Microsoft. We've diversified in Android because of the requirements of our client and the feature set that they need. I would expect us to continue to engage in both going forward but I am cautiously optimistic that we can work more closely with Microsoft on Win Phone 8 and we'll see when it ships and what feature sets in there and we would like to work collaboratively with them on a joint roadmap for clients, especially on the deployment of that OS, the developer ecosystem and the individual feature sets that required for a durable Enterprise-grade set of devices.

**<Q – Tim Long – BMO Capital Markets (United States)>**: Okay, I guess my question, Greg, is there a risk that customers pause spending because they want Windows 8 instead of 6.5?

**<A – Greg Brown – Motorola Solutions, Inc.>**: I don't think so. Because our customers are different than the consumer. so they have customized software apps on 6.5 or windows embedded and I don't think there's a risk of that that we see at this point.

On visibility I've talked about, Tim, that in any given quarter we have about roughly 80% visibility into that quarter going in. I would say that remains the same for Q3 and is incorporated into the guidance we've given you here at 3% revenue growth all-in and \$0.69 to \$0.74 per share on EPS.

**<Q – Tim Long – BMO Capital Markets (United States)>**: Okay, I guess the question – if it's 80% for this quarter, what is it for another quarter out?

**<A – Greg Brown – Motorola Solutions, Inc.>**: We don't really get into that. So we probably wouldn't get into that.

**<A – Edward Fitzpatrick – Motorola Solutions, Inc.>**: It drops off a bit.

**<Q – Tim Long – BMO Capital Markets (United States)>**: Okay, thank you.

**Operator:** Next we'll go to Kulbinder Garcha with Credit Suisse. Please go ahead, your line is open.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>**: Thanks. Greg, I just want to go back to the narrow banding issue. You're saying if you take that out you're still growing 11% in Government and I was always under the impression that with the sales cycle you have in this business, you have very good visibility. Is this a business now that given either your R&D investments or otherwise outside of it even taking into account let's say the macro concerns that you might be able to grow double digits long-term, or is it still kind of mid single digit growth as most of the industry forecasts call for? .Has anything changed or – I'm thinking not just about the next quarter, two or three years out whether the revenue opportunity for you guys is changing? Then on the – and a question just on the buyback. Given the stock is roughly where you bought back almost \$3 billion worth of it, is there any reason why you won't continue to be this aggressive or is there something on the acquisitions front beyond Psion that you're maybe thinking about. Many thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>**: On the Government growth as we said for the full year we're now expecting Government on an annualized basis in 2012 to be high single digits. Kulbinder, I wouldn't forecast anything beyond that. I would like to see things develop and we would watch the developments as a team between now and the remainder of the year and then update you on 2013 at that point in time.

In terms of buybacks, Ed said it well, obviously we were aggressive buying back \$2.9 billion in the last 12 months; that reflected two things. The value of which we thought we would – that's there in buying back the shares and the suboptimal excess cash on our balance sheet which required that sense of urgency.

We're pleased that the board's authorized the additional \$2 billion. We'll be opportunistic and that will be a key tool in helping us move towards net debt. We wouldn't get into specific levels of buying at what levels or price points beyond that but we feel well positioned for us to move forward.

**<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>:** Many thanks.

**Operator:** Our final question comes from Matthew Hoffman with Cowen and Company. Please go ahead, your line is open.

**<Q – Matthew Hoffman – Cowen & Co. LLC>:** Hi Greg or Mark, thanks for the earlier color on Enterprise wireless LAN and your market position there. You called out weakness in Europe and iDEN as affecting results but I was hoping you could add color around two things. First, can you comment on the overall pace of the wireless LAN spending especially your expectation for the second half spending on the category? And second, can you comment on whether you're seeing IT managers shifting resources away from deployments of wireless LAN over concrete floors and now really focusing more on the BYOD and the carpeted spaces within the Enterprise too, thanks.

**<A – Greg Brown – Motorola Solutions, Inc.>:** So Mark and I will tag team this. I don't think we see a big shift to BYOD per se. We too see continued demand for WLAN. Q2 was down in WLAN for us due to a substantially higher Q2 comp a year ago. We do very well in the targeted verticals, particularly retail and transportation and logistics where we're well aligned with great channel reach, but overall I think that share is modestly down in WLAN. I don't think we've seen any chilling of demand. We still expect for the full year for it to have solid full year growth and be generally in line with what we expected. I don't think anything beyond that.

**<Q – Matthew Hoffman – Cowen & Co. LLC>:** Okay, drilling down on that, I think there's a wider expectation, Gartner and some other forecasters see kind of double digit wireless LAN growth overall. Maybe this category is pulling back right now a little bit below the overall wireless LAN growth but prospects gain from here?

**<A – Greg Brown – Motorola Solutions, Inc.>:** We actually have a pretty good funnel of engagement around WLAN or managed WLAN networks. A lot in retail and in the Enterprise segments. We still think it will grow double digit, but I don't know if it will grow as robustly as it did last year. I think the whole industry was north of 30% or 35%. So it's TBD on that.

**<Q – Matthew Hoffman – Cowen & Co. LLC>:** Great, thanks, guys.

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

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#### **Shep Dunlap, Vice President, Investor Relations**

Thank you. I would like to remind everyone the details outlining the highlighted items for our GAAP to non-GAAP P&L reconciliations and other financial information can be found at [motorolasolutions.com/investor](http://motorolasolutions.com/investor). An audio replay together with a copy of today's slides will also be available on the site shortly after the conclusion of this call.

During this call we made a number of forward-looking statements within the meaning of applicable federal securities law. 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 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. Such forward-looking statements include but are not limited to our comments and answers relating to the following topics, future sales and earnings growth, included by segment and region. Earnings per share, future operating margins and leverage improvements. Cash flow generation, the amount of other income and expense, future effective tax rates, achievement of net debt position, the timing and the ability to repurchase shares under our share repurchase program, the ability to pay future dividends, the capital allocation framework, expected decline in iDEN. FX impact. the impact of the reallocation of the D block for public safety use. Market share and demand trends for our business and products such as LTE. The timing impact of acquisition of Psion. New products and solutions introductions.

Because forward-looking statements involve risks and uncertainties, Motorola Solutions' actual result could differ materially from those stated in the forward-looking statements. Information about those factors could cause in some cases have caused such differences can be found in this morning's press release on pages 9 through 22 and item 1-A in the 2011 annual report and Form 10-K in Motorola Solutions and other SEC filings. Thanks again, we look forward to speaking with you shortly.

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