

Motorola Solutions, Inc.
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PARTICIPANTS

Corporate Participants

Ed Fitzpatrick - *Motorola Solutions, Inc. - EVP and CFO*

Other Participants

Jim Suva *Citi - Analyst*

MANAGEMENT DISCUSSION SECTION

Jim Suva - Citi - Analyst

Welcome to the Citi Technology Conference. I'm Jim Suva, IT hardware and technology supply chain analyst here at Citi. With me at the meeting is Motorola Solutions. Specifically on the stage is Ed Fitzpatrick, the Chief Financial Officer of Motorola Solutions.

The format of this is going to be a fireside chat, with me asking a few handful of questions, and then the majority of the time reserved for you as investors to ask questions. Please keep in mind to wait for the microphone to get to you, as this is being webcast for those who could not make it here in person today.

I'd like to start things off by welcoming Ed, the Chief Financial Officer of Motorola Solutions. And Ed, maybe just to start things out and then I'll join you here on the seats on the stage. Can you maybe kind of characterize the big picture overall current demand environment for your products? And maybe take it in first half of the year versus the second half of the year. A lot of companies we've met yesterday and today have talked about things not getting worse, some talked about stability, some talked a little bit about improvement. So it's kind of all over the map right now. But maybe if you can talk about your role as Chief Financial Officer, how you characterized the current demand environment.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Well, if I do break into halves, I would say the first half of the year was really a bit better than we expected coming into the year and the growth rate in excess of what we are forecasting for the full year, so really coming out of the gate pretty strong for the first half of the year. Coming into the year, I think we didn't expect it to be that robust. And I'd say that's driven more from the government side than the enterprise side. Government is a bit better than we expected, enterprise probably in line, maybe slightly worse.. and then in the aggregate, a bit better.

From a macro perspective, I would say coming into the year as well, it's probably in line or maybe a little better than we expected for the first half, if I had to measure the first half versus the second I'd say the second half --

Jim Suva - Citi - Analyst

I'm going to pause one minute for a quick microphone switch-out here, so just bear with us for one minute, for a quick microphone switch-out.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Okay, I'm back on. Hopefully, that's better. So starting from the top, because the beginning was a bit garbled, from what I understand, I think the first-half demand was a bit better than we expected coming into it, and our growth rates a bit higher than what we thought they were going to be. I'd say the biggest favorable surprise there would be the government being a bit better than we expected, enterprise maybe a bit worse. And then net, it was a bit better than we expected coming into the year. If I had to compare first half versus second half, it's really the macro view, maybe slightly worse, maybe because it's continuing, the European phenomenon, at depressed levels of demand in the macro view continuing. So I think maybe it's going a bit sideways, I'd say. If I had to pick up or down, I'd say maybe a bit worse.

Certainly, our demand for the full year -- we've guided to 5% to 6% growth in the first half, will be a bit better than the second half from a year-over-year growth perspective, part of that driven by that macro view that I just talked about, the other part being the year-over-year comps being a bit more difficult versus last year's second half.

Jim Suva - Citi - Analyst

And you actually kind of nicely lit into question number two about which geographic areas. You had mentioned Europe continued to struggle. Can you talk maybe a little bit about North America, Asia, Latin America, emerging markets and just geographic areas, strengths and weaknesses?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Sure. And I think, as I do that, I'd like to break it down government and enterprise because it can be a tale of two cities there, if you will.

So in North America, I'd say strong, relatively strong in North America, stronger than we expect it in government, significantly stronger than we expect it in government, which is great, a big part of the business. The enterprise business is still strong, maybe a bit lower than what we would expect, but still strong and solid.

If you move to EMEA, I'd say that those levels, given the macro environment, a bit lower than you might expect in the aggregate. However, the government business is actually pretty strong. We are seeing growth in EMEA where, for the last three years or so, we've been talking about flat to down. So it's good to see the government business growing again and really driven by -- I think the spending that we are seeing is really driven by the depressed demand levels that we've seen in the past. So it's bucking the trend, if you will, in EMEA.

On the enterprise side in the EMEA, we are down, primarily driven by the foreign currency fluctuations there, particularly the euro. Ex-the foreign currency impact, Enterprise was relatively flat, which I'm actually encouraged by, given that volumes being relatively flat off of a record year that we saw in 2011 is actually pretty good. So encouraged by that.

Asia-Pac, growth in the second quarter maybe a bit lower than we would have expected. We would expect the Asia-Pac growth to be closer to double-digit levels of growth. And I'd say for the full year, that's probably where we are thinking it should come in from an Asia-Pac perspective.

Latin America, I think relatively strong and stable across those, both businesses.

Jim Suva - Citi - Analyst

When you think about Motorola Solutions post the breakout from Motorola, you've laid out some deliverables that you would like to hit, whether it's a dividend, a stock buyback, you get paid down; you really have been delivering on those. Can you just remind investors the status and steps you've done? I think your dividend yield is about a 2%-ish dividend yield. What capital deployment, intended use of cash you've done thus far and going forward?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Sure. So a couple of things in that regard -- we came out with a capital allocation model that talked about how we are going to allocate our operating cash flow going forward. And we talked about 30% being allocated to dividends, 25% to organic growth or capital expenditures, and then a flexible combination, remaining 45% flexible combination of share repurchase or acquisitions. And that's the model I'd expect to see us deploy going forward.

We came out of the gate, though, as a separate public company with a bit more cash than we needed to run the business, as we've talked about. So the predominant capital return vehicle has been share repurchases, and we've done through the end of the second quarter, close to \$3 billion from the initiation of that share repurchase program last year, so significantly weighted toward share repurchase.

As we go forward, I would expect that to balance out a bit more over time. But again, there's still a bit more cash than we think we need to run the business. A lot of that cash is offshore, so we will continue to repatriate, as we've done over the last couple of years and deploy that back and return that capital to shareholders in a consistent fashion with the way we've done it for the past year and a half.

Jim Suva - Citi - Analyst

Am I inferring incorrectly or correctly that stock buyback was a little more heavily weighted in the first half of this story versus forward-looking?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

I'd say that's true as we get the cash balance down to a more normalized level. We talked about \$1.5 billion to run the business. Maybe that's a bit -- maybe that's conservative; there was a little cushion and it. But getting closer to that \$1.5 billion, that means we still have opportunities, right, to return capital to shareholders and/or deploy it in the way that we see appropriate, whether that's acquisitions -- that includes acquisition or not.

So I think you're right. I think there's still work to be done in that regard. So we need to repatriate it, and the balance or the preference thus far has been to do share repurchases, but also evaluating

acquisitions. We talked about the acquisition of Psion, which we expect to close in the fourth quarter, and that's a very nice fit for us going forward to help grow the business.

Jim Suva - Citi - Analyst

And Ed, a lot of the inbound questions I got from investors is, gee, how is Motorola Solutions navigating through this economic headwind times? Governments are under pressure, some governments are filing for bankruptcy, yet Motorola's business is still growing. Can you help us understand these macro factors and events, how they impact you? Maybe it's just a temporary -- or how come, to be honest, you are not declining like the majority of other companies that I'm having present at this conference?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Speaking specifically to the government side of it?

Jim Suva - Citi - Analyst

Yes.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

So I would say, I think you have to look at that regionally as well. But just macro view, we've always talked about the government business being very resilient and not having the volatility of other businesses as the economies -- the macro world has wild swings, the government business is more stable. Part of that is due to the mission-critical nature of that spend. Right. You have to be able to communicate with secure communications, and those types of deployments you can only put off for so long.

We talked about Europe being a good example of that. The European economy is in a tough spot right now, yet we are seeing nice growth. Now, it has been depressed at lower levels than we would expect for the last three years, as I talked about. So I think you can only put off the spending on that mission-critical communications for so long until you get to the point where you realize you need to upgrade it and make sure you need to provide you are able to provide that public safety that the public safety officials need to be able to provide. So I think that's a part of it.

I think, in North America -- again, I'd say there that the townships, the municipalities have been in a position where they've had to look at their budgets for many years. Right? They've been in a tough spot for many years. So I think they've have figured out a way -- they know what their requirements are, they know what the pressure points are in the budget. And they've found a way to spend the money they need to spend to make sure their communication networks are up to speed and up to snuff on the public safety side.

Jim Suva - Citi - Analyst

And if we can get the conference coordinator in the room to start to circulate the microphone, I'll ask one more question, and then we'll turn it over to investors to ask questions. So, please raise your hand and we'll get the microphone to you while I ask this final question.

But, Ed, on the government side, there has been a little bit of new news that has come out. And just to get people up to speed, is Motorola has really been forward-looking, Motorola Solutions, forward-looking on its R&D spending, forward-looking on its goal and strategy for how they are going to deploy LTE or the D block. Recently, there were some states in some areas that were given some waivers to go forth with that pretty early, and there was a little bit of chatter or some talk about those potentially being delayed.

Can you talk to investors and just get them up to speed about the LTE or the D block deployment, the time line, the waivers, what that means if it gets delayed and how important is that to your financial goals? And is that kind of a, I assume, a late 2013 thing you are looking forward, or what time line are we are looking at?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Okay, so let me start from the top, on the LTE opportunity. So you've heard us talk about the LTE opportunity as -- and it is global; that's a global opportunity for us. The US has gotten a lot of the press of late because of the allocation of the D block, which was a positive development, and the funding that has been carved out to be able to provide deployment of this network over some period of time. So I think the US has gotten a lot of talk, but we've also talked about this being a global opportunity, right, a \$3 billion to \$5 billion opportunity over the next 4 to 5 years, so the global opportunities that we've talked about outside the US are in each region. So you talk about EMEA and specifically Middle East in places like Abu Dhabi, Saudi, Israel; in Asia-Pac, in places like Australia, where we are having conversations; in Latin America, places like Colombia. So the opportunities that are out there are global for us. So I think that's number one.

I'd say secondly, from a timing perspective -- and if you speak, again, globally, we think it is second half of the year. So second half of 2013 is when we said these things should start deploying. I think initially we thought the US might be first and then followed quickly thereafter by some of these other regions and countries that I talked about. I think the legislation and the governing bodies that are being put in place are causing that to be a bit more deliberate than some might have expected. But again, we're looking at it globally and think it's a second half of 2013 phenomenon. But we are not counting on more than \$100 million in 2013. So to quantify orders of magnitude as we are looking at our plan for 2013 and continue to look at that, we are not expecting that number to be more than \$100 million.

Jim Suva - Citi - Analyst

Please raise your hand if you have some questions. Otherwise, you are going to get to hear some stories about my newborn twins -- speaking of which, we go shopping a lot with twins lately. And we've so far spoke at this meeting -- again, please raise your hand or you're going to hear the twins stories and family questions. I've got pictures, too, if you want to see them. Usually a lot of people raise their hands.

On the enterprise side, because we've focused so much on the government so far in this meeting, let's talk about the enterprise a little bit. My wife and I -- we shop a lot with twins, and traditionally there's been a lot of Motorola Solutions on the enterprise side. Some of it I would see at the cash register, point of sale, inventory management, I see -- a lot of it behind the scenes that I won't see.

But what I have seen on the enterprise side, on the forward-facing consumer side, is some things like iPads entering in. Traditionally, when I was buying for a package from some of the carriers, such as FedEx, who recently had results last night and the outlook wasn't as cheerful as everybody had talked about or had hoped, there's been some changes there on the enterprise side. Can you talk about the enterprise side now, a little bit about the iPad, forward facing versus behind-the-scenes and what Motorola is doing there and the trends on the enterprise side?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Sure. So the piece that you talked about really is the point of sale types of applications that I think we've quantified and talked about that being an opportunity for us, but as a percentage of our enterprise business, it's probably less than 10% of what we do today. More of what we do is more in the back office with the mobile computing, advanced data capture type of solutions that we offer.

But I would say that the point of sale piece of that business is an opportunity. It's a business that is growing. We are very interested in it. We've introduced products to help address that piece of the market, and we think we should be able to play a meaningful part of the point of sale types of opportunities that are out there, and particularly the enterprise tablet that we came out with earlier this year, task-specific devices that we will be able to use. The ES-400 is another product that we talked about that will be able to help in the point of sale applications for our customers. And I think it's really -- it's not just the device, it's a solution. So we are talking with our customers specifically not just about a device, but what they want to do in the point of sale to help their workforce become more mobile, be able to check out while they are on the move with their customer, standing with their customer, where they are actually buying a product as opposed to coming through to the checkout counter and having a fixed point of sale.

So I think that part of it and that type of mobile solution and how it architects and feeds back into the back-office equipment and the end-to-end ERP solution is the way we are focusing on it.

Jim Suva - Citi - Analyst

Investor questions? There's a question right up here in front, and the microphone is making its way. Following the individual in front, there's a question then in the back. I guess when I started talking about my twins and family, hands just started popping up.

Unidentified Audience Member

Can you just back up for a second and talk about some of the trends that you see driving your business over the long-term, maybe some of the specific factors that you think will influence your growth, and if you can remind us or quantify what type of growth you are expecting over the next five years?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Sure. So long-term growth rate that we've talked about is in a range, still comfortable with that range in a 5% to 8% view. We've talked -- if you look one level down, government versus enterprise, we've talked about the government business being in the low- to mid-single-digit growth range. And that's really based upon what we've seen in history that business has done, plus or minus -- mid-single-digit plus or minus has been what we've done as far back as we can see. And on the enterprise side, we think, with the

increase of the mobile workforce and that phenomenon, we think that business can grow in the higher single-digit. Right? So that blend is where we come up with the 5% to 8%.

So you heard me talk about history. History isn't necessarily an indicator of the future. So why do we still feel comfortable with that long-term growth rate? I think on the enterprise side, I said a big piece of that is the mobile workforce. Why? Allowing our -- our customers want their employees to be able to communicate while they are on the move. And if you think about what we sell, mobile computing products, the WLAN, the wireless networks that are in our customers' location, the managed services that we are starting to do more of and our customers are looking for us to do more of on the enterprise side, really helping to drive demand on the enterprise side specifically.

On the government side, I think it's a number of factors as well. We already talked about the LTE opportunity, the longer-term opportunities with LTE, but on top of that, more near-term and current demand and what would have been historical drivers here is that evolution from 1G, 2G, 3G, 4G that you may have heard us talk about in the past. The majority of our customers in that evolution are 2G or below. So analog to digital conversion, what you can do going from analog to digital, the features and functionality, voice clarity, coverage, GPS, more applications and features, data features that you are able to do as that network goes up that 1G to 4G slot.

So I think that's a piece of it. Managed services as well, in the government business, is attractive for us. And it's as much of a pull of customers wanting us to do more of that, as it is us wanting to get more engaged there. So we are providing more focused resources to go after these opportunities.

A near-term proof point of that is the Norway contract that we announced last quarter, a big opportunity where we are helping to deploy the network, the public safety network, but then also managing it over a 15-year period.

So those are the types of opportunities that we think we are very capable of doing because we are the experts in rolling out the network and in the devices and partnering with our customers, we are going to help manage that network over an extended period of time and keep them current with the latest and greatest features and functionality.

Jim Suva - Citi - Analyst

And there's a question in the back of the room.

Unidentified Audience Member

Ed, I want to have you walk me through -- I understand there's pent-up demand in local firefighters and police for this equipment. But I just still find it really hard to understand how -- they are fighting for their pensions right now. People are going after their pensions. They are fighting for headcount. I mean, there's municipalities going bankrupt, and I don't see how that environment they can still pursue these new equipment purchases.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

I think the answer to that gets back to what I was talking about. What are the drivers? What's driving it? I think you are right; there's restraints on how much they can spend. And they have to go through -- from a prioritization of their budgets, they have to go through what can we afford. It starts from what you have to do to what you'd like to be able to do, and public safety, mission-critical communications systems are

more on the have-to-do. And a lot of these townships, municipalities are in a state from a technology perspective in that 2G or below where they can't afford to stay there. They need to get more current to be able to provide -- to be able to do their jobs more efficiently and effectively with the applications that we are able to provide to them to help them do their jobs more efficiently and effectively.

The prioritization of public safety systems just gets the priority ahead of some of these other things. But I think it is constrained because of the budgetary situation. But they've been in that situation for an extended period of time. They are just figuring out a way to make it work, and that's why we think we are continuing to see this phenomenon where we are seeing growth because of the technology evolution and the need to get more current with the technology.

Jim Suva - Citi - Analyst

There's a question on the other side of the room here, and the microphone will be there in one minute.

Unidentified Audience Member

Can you talk a little bit more about your enterprise wireless LAN business? If you could help us understand from a retail perspective, it seems like that has historically been an area of great strength, and kind of ballpark what market share looks like there, and then what your plans are to grow outside of that particular vertical segment?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Yes, you hit it on the head. The biggest market that we're playing in, in wireless LAN, is retail. And we're a leading provider in the retail segment because we focus on it. We are either number one or number two in that segment, and not just that we are selling the WLAN into retail. Really, it's all part of a solution conversation that I talked about before that we are having with our customers. What do you want to do in the store? How do you want to do it? And we're helping them with getting the wireless infrastructure in place to be able to communicate, to be able to use the mobile computing devices such that their workforces can be more mobile so that they can get the data on inventory management to be able to make sure that they've got their just-in-time inventory figured to where they need it.

So I think from that perspective, it's really part of the solution set that we are doing very well in. And because we've focused on it, we've done well. I think there are other verticals as well that we're looking into, to see where that same type of solution set makes a lot of sense. And we will look to continue to expand. But right now, we are still focusing on the sweet spots where we can add as much value as we possibly can.

Unidentified Audience Member

Where are you in terms of (inaudible).

Jim Suva - Citi - Analyst

Could you repeat the question, please? We can't understand it.

Unidentified Audience Member

I'm sorry. Where are you in the curve of the attitude 11n upgrade cycle for retail?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

I think we are in line with the competition there. I think our products have been well received, and I think we are in line with where the competition is.

Unidentified Audience Member

But is it kind of early innings? Is it kind of mid-stage? Is it close to being done, in terms of your retail customers already upgrading to 11n?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

I don't know the stage of it. I'd just leave it at that.

Jim Suva - Citi - Analyst

There's a question in the very back of the room which we're going to come to right now.

Unidentified Audience Member

Two questions, please -- as time goes on, will you be able to leverage your R&D as a percentage of revenue? And number two, what is your time frame for bringing your cash levels down to the \$1.5 billion level?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

So on the first question, on R&D, I think your question was, are we going to be able to leverage that as we grow the top line? I think the answer to that is yes. We think we can leverage every statement line -- R&D, selling and marketing, and G&A. But I would say that R&D is the least leverageable because of the customized nature of the solutions that we provide. As sales ramp, inherently, you would have to see a congruent increase in R&D. However, we do believe we can grow the top line faster than we are going to grow the R&D line. So it will grow, but not to the extent that we see top-line growth. So it is leverageable for sure, and that's the guide that we've given to the businesses, and we think that's very doable.

The second question -- can you repeat the second question again?

Unidentified Audience Member

About getting the cash down to --

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

About the cash balances, okay, yes. So on the cash balances, we've talked about getting to a net debt position by 2014. So each year, you've seen the progress that we've made. We came out of separation with over -- I think it was \$5.7 billion in cash and we're down to somewhere in the \$3.5 billion range to date. The majority of that cash -- reduction in cash, has come through share repurchases with approximately \$2.9 billion through the end of the second quarter.

So the path that we are on -- we're going to continue on that path such that we get to a point where, by 2014 we are in a net debt position. We will be closer to that \$1.5 billion. We may not quite get there because of the pace of repatriation, but we are going to make nice progress between now and then.

Jim Suva - Citi - Analyst

Ed, one question I get asked a lot about is your view on the pension, the pension funding. I believe -- maybe I'm wrong -- that the pension has now been frozen, that if a new person joins Motorola, they are not eligible. Is that correct, in your view, on the pension?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

That's right, that's right. The pension plan has been frozen. No new entrants and no future service costs, either. So it's effectively frozen for all. Really, the impact of pension expense and funding really relate to discount rate and the return profile on our assets.

Unidentified Audience Member

And given interest rates and service costs and all that, your view on additional funding for it?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

I think we will assess it. We did make an incremental contribution last year that we talked about that made sense. I think you're bound by a few things. You don't want to get to the point where you are over-funded. We've also talked about back in 2007 we were pretty close to being fully funded, right, within \$100 million to \$200 million. The real change that's taken place between 2007 and today is the discount rate. The discount rate came down significantly, and that is what has caused the spike in the underfunded position.

So I think we will be deliberate over a period of time in the funding, and we will ensure that we meet the minimum funding requirements of ERISA. And if we think there's opportunity to do a bit more, we will consider that. But I guess what I should say is you should plan for us to be deliberate over a period of time.

Jim Suva - Citi - Analyst

Additional questions for investors? Ed, when we look at your international exposure, you talked on international a lot on Europe, EMEA and North America. When you look at your global footprint, I'm a little surprised that Asia isn't a bigger piece of your pie, or at least the growth of that hasn't been a key highlight. In fact, to me, it has been a little bit disappointing. Can you talk a little bit about your Asia

footprint? Is it because the local incumbent is there, or there is a preference to domiciled companies in, say, South Korea, Taiwan, Japan, China? Or just talk about that.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Sure. The last part, from a competition perspective, I think competition is intense everywhere. Maybe a bit more, maybe a bit more intense because of what you just mentioned in Asia-Pac, potentially. But I think it's more -- we do believe the Asia Pac growth rates ought to be a bit better than the other regions, inherently, because of the growth that you see there in the macro environment. I think Asia and China are not immune to the contagion effect of the EMEA, either. So I think you are seeing a bit of that in our business.

But I think for the full year, we are expecting that business to be more -- closer to a double-digit type growth business. And that's what we think, longer-term, the opportunities are in Asia-Pac. We ought to be able to do double digits in that space. But the demand there, particularly in public safety, can be lumpy as well. So we don't get concerned with dips in particular periods as we are looking for only the long-term growth rates. And we like the prospects in Asia-Pac in China as well, as an example.

Jim Suva - Citi - Analyst

And what is the reason for it not growing that strong double-digit growth that you anticipate? Is it you need more feet on the ground, bodies there? Is it -- is there a communication issue? Was there a transition or a product change? What was the reason, because (multiple speakers)

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

I think it's a few things. Part of it is year-over-year comps. We had a very strong year in Asia-Pac last year. Part of it, again, is timing. So you can have quarterly lumpiness.

I think another piece is that Asia-Pac -- China, as an example, are feeling some of the effects of EMEA, right, and what's happening there. And it has tangential effects not only in Asia, but in the states as well, that we've seen a little bit.

Jim Suva - Citi - Analyst

There's a question right up here up front, and the microphone will be here in one second.

Unidentified Audience Member

Just elaborate a little bit on your business model as it pertains to equipment sales versus maintenance or any service revenue you get, maybe the mix between the two and how you would anticipate that mix to shift over time.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Sure. So the services as an element of our total sales is about 25% of our business. On the government side, it may be a bit higher than that, on the enterprise side a bit lower. As we move forward, we do see the services side of the business maybe growing a bit faster than the equipment side. So I wouldn't be surprised to see that shift a little bit higher over time as we get into more contracts like Norway, where we are doing managed services, or beginning to do more managed service, as an example, in the enterprise as we talked about.

So it seems like there's an appetite for us to do more of that on our customer side, and there's an appetite on our side as well to do more of it. And we think the inherent growth rate should be a bit higher than what we are seeing on the equipment side. So that's a place where we think it's going to migrate to a bit more over time, more managed services, more intelligent types of analytics and network optimization types of opportunities.

Unidentified Audience Member

(Inaudible question - microphone inaccessible).

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

So the question related to -- is there margin differential between products and services. The gross margin on the services piece of it is a bit lower. But from an operating margin perspective they are very much in line, or comparable. And we would expect those to leverage up along with the equipment margins edging up over time as we leverage the business.

Jim Suva - Citi - Analyst

There's a question in the middle of the room.

Unidentified Audience Member

Ed, can you talk about the strength you saw in government so far in 2012 and you think you're going to see for the rest of the year -- is that a pull-forward from 2013, or should we still expect a normal year in 2013? Is it just the confluence of events that ended in the strength of government this year?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Yes, so I think this year, particularly the first half, we have talked the 12% or whatever the growth was the first half of this year, right around there, a bit stronger than we would have expected and higher than -- the baseline level of growth in this business, we said, is low- to mid-single digits. So our expectation -- we do think 2012 is somewhat of an anomaly, driven by some of the factors we've talked about with the narrow-banding phenomenon driving a bit of that. But new product introductions as well have accelerated, which has helped growth rates.

So we think that, plus what we've seen historically in this business grow, we feel comfortable we are not going to guide to 2013, but the long-range plan that we've talked about, that 5% to 8% growth rate really

does contemplate something in the low- to mid-single digits for the government business, and that's what we would expect. Absent some type of macroeconomic decline, that's what I would guide to for now.

Jim Suva - Citi - Analyst

And, Ed, that 5% to 8%, is that organic, or does that also include pending acquisitions?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

The 5% to 8% that we talked about was really organic, organic opportunities. So the Psion acquisition would definitely -- as that comes in, that should help the growth rates next year.

Jim Suva - Citi - Analyst

We have time for maybe two more questions.

Ed, on the front of you being CFO, a lot of people within Motorola Solutions would like to take some of your cash and deploy it for acquisitions. Are there certain parts of your product portfolio, whether it be you are missing certain products, certain end markets, or is it geographic areas that you are looking at, deploying that for the acquisition front? And maybe remind people of what this pending acquisition, what they bring to the table.

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

So we talked about our portfolio, that we are very happy with the portfolio that we have. And we really have no significant gaps that we are really concerned with. With that said, we are going to look to see if there's opportunities that are tuck-in in nature that help us get stronger in particular areas. And if there's an acquisition out there, it will need to pass a bunch of thresholds. Right? It's got to be the right strategic fit, pass all the right financial hurdles and makes sense driving shareholder value.

The Psion acquisition was a nice fit. From a technology fit, it's right in the wheelhouse where we are strong on the enterprise side -- enterprise/mobile computing side. So it helps from a -- it's very complementary from a product perspective as well as a regional perspective.

So I think those are the opportunities -- if there are more of those out there, we would definitely go after them because this one, we think, really makes a lot of sense. We ought to be able to leverage it, and it should add, grow shareholder value as we integrate.

Jim Suva - Citi - Analyst

You mentioned the product and the footprint makes sense. Can you just remind people of that product and that footprint of what makes sense?

Ed Fitzpatrick - Motorola Solutions, Inc. - EVP and CFO

Think of mobile computing, forklift attached, mobile computing products. They are very strong, cold storage type of products in the mobile computing space as well. So it fits into the mobile computing space and adds, from a product-complementary perspective, there's not a lot of crossover in that regard -- a few examples.

Jim Suva - Citi - Analyst

The next time I see a forklift, I'll think of you. We have time for one more additional question for investors.

Okay, well, ladies and gentlemen, with that, we'd like to thank Motorola Solutions and the Chief Financial Officer, Ed Fitzpatrick, for joining us. And ladies and gentlemen, this concludes this part of the session of the Citi Tech Conference. Thank you.