



Q2 2013 Earnings Conference Call Wednesday, July 24, 2013

PARTICIPANTS

Motorola Solutions Corporate Participants

Shep Dunlap – Vice President-Investor Relations
Greg Brown – Chairman and Chief Executive Officer
Ed Fitzpatrick – Chief Financial Officer & Executive Vice President
Mark Moon – Executive Vice President, Sales and Field Operations

Other Participants

Kulbinder S. Garcha – Analyst, Credit Suisse Securities (USA) LLC (Broker)
Andrew C. Spinola – Analyst, Wells Fargo Securities LLC
Tavis C. McCourt – Analyst, Raymond James & Associates, Inc.
Asiya Merchant – Research Associate, Citigroup Global Markets, Inc. (Broker)
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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and thank you for holding. Welcome to the Motorola Solutions Second Quarter 2013 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. I would now like to introduce Mr. Shep Dunlap, Vice President of Investor Relations. Mr. Dunlap, you may begin your conference.

Shep Dunlap, Vice President-Investor Relations

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

Earlier this morning, we posted an earnings presentation and press release at www.motorolasolutions.com/investor. These materials include GAAP to non-GAAP reconciliations for your reference. It's important 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'd like to now turn the call over to Greg.

Greg Brown, Chairman & Chief Executive Officer

Thanks, Shep. Good morning and thank you for joining us today. Solid results in Q2 Government helped us exceed our earnings outlook while our Enterprise business declined, resulting in overall sales at the lower end of our outlook. As I think about the quarter, there are four key messages. First, weakness in enterprise continued. Second, our government business remains strong over record results last year. Third, we're still targeting 18% operating margin for the full year. And finally, our overall confidence in these businesses is reflected by our announcement today of a \$2 billion increase in our share repurchase authorization, along with a 19% increase in our dividend.

In Enterprise, we expected improvement this quarter but that didn't happen. While we continue to have positive dialogue with customers along with additional user trials for our expansion products, we still have yet to see a meaningful pickup in sales conversion and large Enterprise deals. This demand environment we face in Enterprise is not unique to us as the broader industry is impacted by customers carefully managing their IT budgets in the face of macro uncertainty. As a result of this environment, we now expect a more modest recovery in this business toward the latter part of the year. Having said that, strategically our Enterprise business remains well-positioned to capture a rebound in Enterprise spending as that occurs.

In light of this elongated recovery in Enterprise, we now expect full year sales growth for the total company of approximately flat to up 1%. The Government business continues to perform well, especially when you consider the record revenue and profitability levels from last year. Backlog in government remains healthy and both ASTRO and TETRA had solid growth in infrastructure sales, which is typically a leading indicator for future subscriber demand. This business continues to demonstrate its resilient characteristics where incumbency, innovation, support for future migrations and legacy compatibility are important differentiators for Motorola.

Our 18% operating margin target for 2013 is unchanged, although clearly, our path to achieving it is now primarily driven by Government and proactively taking costs out to offset our lower growth expectations.

I'll now turn the call over to Ed to provide additional details on our Q2 results and then I'll return to discuss the quarter a little bit further.

Ed Fitzpatrick, Chief Financial Officer & Executive Vice President

Thanks, Greg. Q2 sales declined 2%. Q2 Government sales were \$1.5 billion, a decrease of 1% from the prior-year quarter. Operating margins in the Government segment improved 120 basis points from 16.4% to 17.6%. Better gross margins due to mix and lower general and administrative costs led to the improvement in profitability.

Enterprise revenues declined 5% to \$656 million. Excluding the impact of Psion and iDEN, Q2 revenues declined 9%. Operating margins in the Enterprise business declined from 16% to 11.9%. Lower product sales volume, the addition of Psion and a decline in iDEN drove this margin decrease.

Operating expenses were \$709 million or 33.7% of revenue, which is flat from the year-ago quarter. We will continue to actively manage our cost structure and invest appropriately based on our business needs, which will include modulating spending in a way that factors in the macro and Enterprise environment.

Our operating earnings for the second quarter were \$334 million or 15.9% of sales compared to \$350 million or 16.3% in Q2 2012. Total other income expense was a net expense of \$42 million in the quarter

compared to a net expense of \$38 million in Q2 2012. We expect this line item to be an expense of approximately \$40 million per quarter going forward.

Our effective tax rate was negative for the quarter, driven by \$118 million of net tax benefits largely as a result of our new international holding company structure, which represents the year-to-date amount of a full year tax benefit. Based on current outlook – based on our current outlook, we expect our effective tax rate to be in the range of 10% to 13% in Q3 and Q4. After 2013, we expect our ongoing effective tax rate to return to approximately 32% to 33%.

Cash generated by operating activities from continuing operations for second quarter was \$82 million as compared to \$254 million of cash generated in the second quarter of 2012. The lower cash flow results for the quarter were primarily driven by lower sales and linearity of sales within the quarter. Specifically, we had higher sales in June than the year-ago period, which drove lower AR collections. Lower accounts payable days also contributed to the decline year over year.

For the full year, we now see risk of up to \$150 million to our operating cash flow when compared to last year. This is primarily due to three items: first, a lower sales – lower full year sales outlook; second, \$43 million held by India's Government, which relates to tax amounts currently under dispute; and third, \$25 million to \$30 million of incremental restructuring related actions as we adjust our cost structure to match our lower growth profile.

Let me also remind you that as we compare our cash flows with prior-year levels that we expect to pay an incremental \$150 million in withholding and other taxes in 2013. These tax payments are in line with our international holding company strategy that we announced at our Analyst Day in May.

We ended the quarter with \$3.2 billion in cash and \$2.5 billion in debt. With respect to capital return we repurchased \$550 million of stock or 9.5 million shares at an average price \$57.80 per share. Since we began repurchasing shares in Q3 of 2011 we have bought back \$4.5 billion or 92 million shares at an average price of \$48.62. In addition, we paid \$71 million in dividends during the quarter.

We remain committed to capital return as part of our capital allocation framework. This morning we announced a quarterly cash dividend of \$0.31 per share. This represents a 19% increase over the prior quarterly dividend. We also announced that our board has authorized an increase of \$2 billion to our share repurchase program.

Now turning to our Q3 and full year outlook. For Q3 we expect sales to be flat to down 3% compared to the third quarter of 2012. Our Q3 outlook is for non-GAAP earnings per share of \$0.97 to \$1.02 from continuing operations based on Q2 ending share count and this incorporates the new effective tax rate of 10% to 13%. This compares to non-GAAP EPS in Q3 2012 of \$0.84 per share.

Moving to full year 2013, we now expect sales to be flat to up 1%. We expect Government to grow low single-digits and we expect a low single-digit decline in Enterprise. In addition, we previously expected favorability from foreign exchange tailwinds in the second half of 2013 based on a more favorable euro rate. However we are seeing significant weakening of the Australian dollar and Japanese yen, as well as weakness in the British pound and now expect an unfavorable FX impact of approximately \$30 million in the second half revenues. We remain focused on driving operating leverage and still plan for full year operating margins of approximately 18%.

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

Greg Brown, Chairman & Chief Executive Officer

Thanks, Ed. As previously stated, Government sales for the quarter declined \$8 million from Q2 2012 or 1%. Profitability for the business increased with operating earnings of 17.6% of sales compared to 16.4% in Q2 of last year. In our ASTRO portfolio total sales declined single-digits off of last year's comparable record 20% growth rate. Having said that, new infrastructure – new system infrastructure sales actually increased over Q2 last year.

We had a number of new wins during the quarter including an \$88 million contract with Maricopa County, Arizona to implement a digital radio communications network with coverage across the county. The Phase 2 TDMA network will replace the 15-year old and increase capacity with the available spectrum. We also received a \$20 million order from the City of Phoenix Regional Wireless Cooperative to upgrade their 13-year old ASTRO system that serves interoperable communications needs of first responders and other municipal users in 19 cities, towns and fire districts.

In Canada, we were awarded a \$28 million contract with the York region in Toronto to replace a 20-year old system and another with the City of Quebec for \$10 million. And Carroll County, Maryland awarded us a contract for a \$12 million system upgrade. The P25 standard and our ASTRO portfolio continue to extend beyond North America into over 60 countries. For example, the Taiwan Coast Guard selected us for a \$10 million ASTRO system and the Kuwait Ministry of Defense awarded us a \$17 million contract for an upgrade to ASTRO 7.14, our newest infrastructure product scheduled for Q4 release.

This latest version of our ASTRO system includes enhanced mission critical redundancy and a seamless migration path that can be performed with no system downtime. The system architecture is also designed for improved serviceability and scalability including future LTE upgrades.

Mission-critical users expect technology that must be intuitive to use, easy to deploy, interoperable with legacy systems and future proof and we continue to innovate around these requirements while tailoring our portfolio for adjacent verticals. For example, energy, the large utility in the South is investing in a \$44 million ASTRO 25 Phase 2 TDMA network to replace their legacy analog platform. The new system consists of APX radios and dispatch consoles for daily requirements as well as communications during storm restoration.

And the Imperial Irrigation District in the California desert, a community owned electric and water utility recently chose us for their ASTRO system. The Port of Seattle's \$4 million investment in an ASTRO system this quarter is another example of a radio system used to secure medical mission-critical infrastructure.

Our TETRA portfolio grew strong double digits in total driven by new systems and installations. We had several notable wins in TETRA during the quarter as well. In Singapore, the Ministry of Home Affairs recently awarded a contract for a next-generation nationwide network and selected our latest broadband ready TETRA digital radio technology. The initial phase of the award is valued at \$79 million for us and our local consortium partner to deploy the nationwide network, which will serve the police and Singapore Civil Defense Force with a total of 42,000 officers.

Other TETRA awards include Entropia Digital, a Dutch network operator serving commercial users such as transportation utilities and power generation industries. And we had continued success in the rail transportation market with large awards from Shatin Central Rail in Hong Kong for \$15 million and Taiwan High Speed Rail for \$8 million.

At Critical Communications World in Paris we introduced our next generation of TETRA infrastructure including the first combined TETRA and LTE base station. This innovative solution is designed to facilitate a cost effective and staged migration to a unified TETRA and LTE network. It equips network operators for future needs and gives them flexibility to choose when and where to add LTE to their core networks and on which frequency.

Our Professional and Commercial Radio sales were down slightly compared to Q2 2012 where we had record double-digit growth. We continue to tier our PCR portfolio around the digital platform. Several years ago we were the first to introduce the digital radio in the professional market and today our MOTOTRBO is the most widely deployed adopted digital platform with more than 2,000 systems deployed and 2 million units sold globally. We are extending MOTOTRBO and bringing benefits of digital such as better capacity, coverage and voice quality to additional tiers as well.

This expanded MOTOTRBO lineup will bring digital features to an existing install base that is still about 90% analog today. In terms of new contract awards for PCR, we've seen continued rollout across multiple production facilities in North America for Chrysler utilizing MOTOTRBO and General Mills is also deploying it for their onsite communications.

We continue to invest in applications and control points that are important tools for public safety like the command center. We released our PremierOne Next Generation 9-1-1 Call Control solution designed to transform incident management operations by integrating CAD and 911 systems, eliminating data entry for dispatchers during emergency calls and improving their focus and productivity.

Another area where public safety is incorporating more technology is in the police vehicle as an integrated communications hub. We recently made a very small but strategic acquisition of 54ward Integrated Solutions, a provider of software and hardware interface components that connect in-vehicle public safety equipment including radio, light and siren, radar, license plate recognition and mobile computing. And our Real-Time Crime Center solution was featured at the recent Annual Conference of Mayors in Las Vegas, where their technology and innovation task force explored the topic of using data and analytics to fight crime.

Finally wrapping up our Government results for the quarter, the business continues to perform well and the demand drivers of an aged legacy infrastructure and its corresponding need for upgrades continue.

Now moving on to the Enterprise segment, sales in Enterprise were \$656 million, a decrease of 5% from Q2 of last year. Operating earnings declined to 11.9% of sales from 16% last year driven by negative leverage from lower sales, Psion sales and lower iDEN revenues. Enterprise sales results were driven by double-digit declines in the enterprise mobile computing portfolio excluding iDEN, an expected iDEN decline of \$31 million, a mid-single decline in data capture and a mid-single-digit decline in WLAN.

Our uniqueness in Enterprise is characterized by designing technology around the specific user experiences, whether it's for a truck driver at a logistics company or a manager or customer in a retail store. Integration with legacy applications is also vital for our customers, many of whom have millions of dollars in back-office investments that they intend to leverage. A great example of this is our work that we're doing with Tesco. They continue to roll out our MC17 devices with a \$3 million order to expand their Scan as you Shop program across large format stores in the U.K. The MC17 also supports their "dot com" program, which enables shoppers to have groceries delivered to their door. Tesco was piloting our new SB1 smart badge and mobile workforce management software with their customer service teams to improve in-store communication and customer response times.

One area of strength for Enterprise this quarter was in Asia-Pac, Middle East, where the business grew double-digits. We had several new wins in the region with retailers like Coles Supermarkets for \$3 million, Kmart Australia for \$2 million. And our new value tier MC2100 positioned us well to win a \$3 million award for China Post and a \$1 million order for Deppon Logistics in China. And Australia Post continued their deployment of MC67 devices with another \$5 million order.

We've also updated several of our industrial mobile computing products. We recently introduced the MC9200, an expansion to the world's most popular industrial mobile computing product with more than 2 million devices shipped over the last decade. We also released a new imaging device built on the legacy of our most popular scanner. This next-generation linear imager expands our portfolio to provide another option for retailers looking to read both printed 1D bar codes and electronic bar codes displayed on mobile device screens, a common application for loyalty cards and mobile coupons. We've seen encouraging early demand indicators from the channel for this specific product.

Two new Psion products are designed for use in cold temperatures. Freezers and cold storage environments, which are common in perishable food and medical industries, present some of the most extreme specs for computing hardware. The United States Cold Storage recently chose these devices for their requirements.

With respect to some of our new expansion products, we've engaged with numerous customer pilots. We remain enthusiastic about the opportunity associated with these products. But the rate of sales conversion has taken longer than we initially anticipated. The Android-based MC40 multi-function device that's designed for inventory management as well as Point-of-Sale and voice has several pilot deployments among major retailers in Europe and North America while the SB1 is deployed at a major shoe retailer at 130 locations in North America and a pharmacy chain with several locations here in the U.S. We won a \$7 million project with Canadian Tire to deploy more than 5,000 of our devices in their stores as a digital hub for an improved customer shopping experience as well.

Moving on to the regional results, this quarter for the total company with respect to the Americas, North America sales declined 1% with continued strength in Government, up single-digits while the Enterprise business declined high single-digits in North America. Following a terrific quarter in Q1, Latin America was down 24% off of a tough compare last year where Government actually grew over 40%. Large deals can drive quarterly variability in this region based on its relative small size. However, we remain confident in the double-digit growth outlook for the full-year for Latin America excluding iDEN.

Turning to Europe and Africa we grew 4% driven by single-digit growth in both Government and Enterprise. Excluding Psion the Enterprise business declined double-digits. And finally in Asia-Pac and Middle East sales declined 2% with a high single-digit decline in Government and double-digit growth in Enterprise. Sales in China were up double-digits and these regional results were consistent with our Q2 expectations as we make progress at returning this region to growth for the full year. I made two trips during the quarter to this region meeting with customers and government officials and our new leadership team and I'm encouraged about our continued gaining momentum in that area.

Our services line of business grew single digits in Q2. We renewed several significant support agreements for systems including the East Bay Regional Communications System for \$8 million and a \$10 million maintenance agreement with the State of Mississippi for their statewide system that currently provides mission-critical communications to over 17,000 public safety users.

Within our managed services business the South Australian Government Radio Network extended their managed network service contract and UK Mail continued to adopt our Mobility Lifecycle Management solution to help monitor, manage and improve the availability of devices deployed across their 52 sites

and 2,500 vehicles. This comprehensive solution includes our enterprise mobile computing devices combined with lifecycle management, enabling the customer to utilize the latest in mobile technology while maintaining a focus on their customers and strategic business objectives.

In terms of specific milestones we continue to implement the Norway contract with over 200 live sites and best-in-class system availability metrics since we acquired the prime responsibility in Q1 of 2012.

So let me share with you a few closing thoughts as I wrap up our prepared comments on this call. First, I'm proud of our team's ability to execute and meet our Q2 expectations despite record comps in Government last year and a challenging industry environment in Enterprise.

Second, we remain committed to innovation and leadership in both our Government and Enterprise business, as we know this is the best way to generate returns for our shareholders over the long-term.

Third, while there are factors impacting our Enterprise business that we don't control, we're going to work hard on managing the things that we can and we will be rigorous in driving profitability across the entire company and remain committed to our 18% operating margin target. And fourth, our confidence in our business and our commitment to shareholder return remains strong as evidenced by today's announcement for a 19% dividend increase and a \$2 billion increase in the share repurchase authorization.

Shep Dunlap, Vice President-Investor Relations

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

QUESTION AND ANSWER SECTION

Operator: Our first question is coming from Kulbinder Garcha, Credit Suisse.

<Q – Kulbinder Garcha – Credit Suisse Securities (USA) LLC (Broker)>: Thanks for the question. First of all, Greg, I guess and, Ed, for you in terms of the guidance, the implied fourth quarter ramp in sales and operating income is very high. You can obviously play with ranges but it looks like your implying the sales would grow maybe 20% quarter-on-quarter, the operating margins would scale to be well over 21%. I know there's various scenarios that get you to that very high number in Q4. But can you maybe explain what gives you the confidence of that ramp today in terms of order book visibility, customer conversations? However you want to frame that discussion that would be helpful.

And the second question is, I guess, for Greg and I mean this with the greatest respect, the forecasting of the Enterprise business has proved very challenging. So can you speak about what you've done now in this new guidance to give us the confidence that we're not going to be here in three months' time and maybe that Q4 number gets pulled down? Many thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Kulbinder, that's a fair question. I'll take the second part first. At the end of the day we're disappointed in the performance of the Enterprise business and what we now see is a few things. First in the elongated spending recovery; second, quite frankly and we have detailed conversations and engagements with customers, but the conversion of some of these critical engagements are taking longer. In addition to that I think many customers are taking what we thought would be larger purchases and breaking them into smaller chunks. And quite frankly, and Mark Moon maybe can reference this later in the call as well, we had a number of customers where we still have very good visibility to a deal and we still believe that we're more likely to win the deal. But not only, Kulbinder, has it slipped out of the quarter, because of tight CapEx spending some of these customers have deferred until early 2014. And quite frankly, we didn't anticipate that.

On the new product side, we still have good engagement on the SB1 and the MC40, the biplane scanner. But quite frankly, some of those are converting to more pilots and trials as opposed to projects and deployments. And then lastly as Ed referenced in his comments, what we had thought would be FX tailwinds for the second half are now FX or foreign exchange headwinds. So we've taken those into account as we've more thoughtfully guided the second half of the year and that's where we are.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: So on the sales by quarter, the 20% we can talk to you off-line but the mathematics – it more implies a mid single digit or a little bit higher on a comprehensive basis or across both those businesses. Mark can talk to them, but one of the key items if you look at the biggest business, Government, as we look into the future and we look at our backlog, and the aged backlog that we're seeing at this point in time of the year versus this point in time of the year last year it's up significantly. It's up I think over \$100 million versus where we were last year. So the confidence in having visibility into the fourth quarter for Government, and as Greg just mentioned the Enterprise opportunities are still there. I mean, we weren't forecasting growth in Enterprise based upon just a general macroeconomic improvement, it was based upon real deals that as Greg mentioned pushed out some of them into Q4, as you mentioned. So we are planning for growth in both Government and Enterprise in Q4 but some of those deals did push out into 2014 and that was the rationale for the guidance coming down. I'll let Mark add any more color there.

<A – Mark Moon – Motorola Solutions, Inc.>: I think the details to what Ed just said in total mathematics are correct. If you break it down by segment, if you think about the Enterprise business in fourth quarter, and really for the second half in general, it's really – we're only anticipating normal linearity from first half to second half. I would remind you coming off of a soft first half, so while it looks big it's

really normal growth adjusted for normal seasonality with a bottoms-up build. I would also remind you that Q3 and Q4 of the previous year was actually down 10% in each of those quarters without Psion and without iDEN. So we're coming off of a weaker compare as we talk about those particular quarters.

In Government, Government is a stronger Q4 and it really is just the loading of projects when you look at that. From a Government perspective, we definitely have been resilient all throughout as Greg mentioned in his earlier comments. But Q4 in particular has strong aged backlog already. We have good visibility to Q4. In fact, as we entered Q3 we had similar types of backlog already aged into Q4 which we expect to build throughout the quarter. We also have good funnel visibility to the projects that are actually going to happen, and as Greg mentioned in his comment, a major ASTRO infrastructure release 7.14 which will be our newest infrastructure release will occur within the quarter. So we really do have good visibility to what we're forecasting for second half and fourth quarter.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: So Kulbinder, just one added piece of detail. As you look at it, and we look at the ranges of the guidance, if we're at the left side of the range at down 3%, you'd need to do 7% to get to the right side of the guidance of 1% growth for the full year. If we go flat for the full year and we're down at 3%, we need to grow 2.7% in Q4. So that's how it all kind of comports as you – as we do the mathematics.

Operator: Our next question comes from Andrew Spinola, Wells Fargo.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Thank you. Sorry about that. Just looking at the different pieces of the Government business, I think you had said TETRA was up double digits for the year. P25 I think it sounds like was a little soft, but infrastructure on the whole was up for the year. When I think about those data points together, I'm wondering especially when I compare 2013 with 2012 in your Government business, maybe – and the infrastructure being up, is the weakness in the handhelds maybe bigger because of the narrowbanding mandate in 2012? Do you think that maybe more demand was pulled into 2012 than you originally thought? And any color there, and I have a follow-up on the PCR business.

<A – Mark Moon – Motorola Solutions, Inc.>: So I think in particular, the narrowbanding in North America did have an impact as we talked about throughout the year on all of our portfolio, but particularly on the subscriber base. I would describe the subscriber performance for this year as not really being weak, but really coming off of a very strong compare, and as Greg mentioned we are excited about the infrastructure growth that's still continuing to go, which usually is an indicator for future subscriber additions. So all in all, I think your analysis around the narrowbanding in North America as well as the first push around analog to digital around the world led to some good strong subscriber sales last year, and we're banging up against that comparable as we look at subscriber sales for this year.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Got it. And then on the decline in PCR, could you maybe break down a little bit where you're seeing the softness? Is it in your Government customers or Enterprise customers? And maybe what's driving that? Thanks.

<A – Mark Moon – Motorola Solutions, Inc.>: Again, as you think about last year, very strong year for our PCR business both narrowbanding driven, very similar to the comment you just made on ASTRO, as well as conversion from analog to digital around the world. So as you look at those comparables both ways, the comment I just made earlier, our subscribers are flat year-on-year and we really expect PCR to be roughly flat year-on-year. So we're still seeing good demand. I think it is coming against the tough comparable that we had the previous year. So we don't really see any fundamental drivers changing in either of those businesses.

<A – Greg Brown – Motorola Solutions, Inc.>: The – the only thing I'd add is we saw PCR dip slightly a little bit in Asia and I would attribute that – primarily due to some factors in Japan. And we are refreshing and tiering some new subscriber PCR products that will begin to be rolled out later this year that I think will improve that individual regional situation.

<Q – Andrew Spinola – Wells Fargo Securities LLC>: Thanks.

Operator: Our next question comes from Tavis McCourt, Raymond James.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Thanks, guys. Ed, a couple clarifications for you then a big picture one for Greg. In terms of your comments on operating cash flow can you kind of refresh us of either what the original operating cash flow guidance was for the year or what we should be thinking about now? And then also on tax rate, I think you mentioned 10% to 13%. Is that the effective tax rate we should expect for Q3 and Q4 or for the full year on an average basis?

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: Okay. So on cash flow let me refresh. You know, we had talked about and what we had mentioned at the financial analyst meeting, in general our model will be to grow operating cash flow in line with net income. At the analyst meeting we had talked about – given the softness in the top line where we – we're work it at – we took it down from 5% down to – previously to the 3% to 4%. We had talked about getting cash flow relatively flat year-over-year. That was even with the \$150 million of tax payments that we're making aligned with our strategy, our international Holdco strategy that would reduce ongoing taxes. At this point given the continued softness in sales, and the biggest contributor for the full year, will be the – you know the lower level of sales that we now expect. With that, we now see \$150 million of risk to the full year driven by that top line softness.

Second, we had mentioned the \$43 million of taxes that were seized by the India government that, just given the delays that are taking place there in the courts, there is no guarantee that we'll be able to get that back before the end of the year.

The third item that I'd mentioned relates to the restructuring costs that were – that we've incurred and plan to incur for the rest of the year related to the sizing of the business given the softness in the business. And with that we expect to pay, as I said, about \$25 million to \$30 million more of restructuring costs for the full year. So those are the key highlights. So with that we've guided to be relatively flat. We do see \$150 million of risk related to that for the items that I had just mentioned. And on -

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: And...

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: Go ahead.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: No sorry, tax – the tax rate question.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: And on the taxes it is – it'd be – we're expecting it to be the 10% to 13% for Q3 and Q4. And as I mentioned, for 2014 going forward we expect the effective tax rate to be in that 32% to 33% range.

<Q – Tavis McCourt – Raymond James & Associates, Inc.>: Got you. And then, Greg, I wonder if you could give us kind of a first responder LTE update? Anything noteworthy since the May Analyst Day? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Yeah. And that's a good question because that's also incorporated into the adjustment to the full year revenue outlook of – from 3% to 4%, to flat to 1%. It's

primarily driven by Enterprise and we've now basically extracted out any planned LTE revenue contribution for this year. As I said in earlier comments, including at FAM (the Financial Analyst Meeting) in May, I always believed that our LTE revenues from a material standpoint would be largely internationally led first. I still believe that. And our engagements particularly in the APME region remain constant but we're no longer – and I'm no longer counting on closing that or those engagements this year and converting it to revenue. I think it's more prudent not to plan for that. And having said that, things in the U.S. continue to move forward in general but NTIA has continued to freeze the BTOP grants and FirstNet continues to move forward in their engagement.

The only new development I think is LA-RICS. And LA-RICS negotiated a spectrum agreement with FirstNet, which we believe is positive. But having said that – and that's important, they still need to – they, LA, need to work through how they're going to fund it whether it's organically through their own means or a grant from the Feds. But even after all that they'll then do a bid that will be forthcoming and we would expect revenue from that, if we were to be fortunate to win it, more in 2014.

So interest remains high and engagement remains high both domestically and internationally and we'll move forward accordingly. But we've kind of taken LTE revenue out of our forecast for the remainder of 2013.

Operator: Our next question comes from Jim Suva of Citigroup.

<Q> - Citigroup Global Markets, Inc. (Broker): Good morning guys. This is Asiya on behalf of Jim. Very quickly, can you tell us what iDEN was for this quarter and what the expected contribution is for the year?

<A – Greg Brown – Motorola Solutions, Inc. >: iDEN was down \$31 million in Q2, and we still expect it to be approximately \$185 million in revenue for the full-year this year, down from \$265 million last year.

<Q>: Asiya Merchant – Citigroup Global Markets, Inc. (Broker): Okay. Great. And then on the OpEx side, I know you continue to maintain your operating margin guidance of 18%. Can you talk to us about some of the items that are impacting OpEx down so much, and sort of looking further out how should we think about your OpEx run rate into 2014? Thank you.

<A – Greg Brown – Motorola Solutions, Inc. >: Well I'm not going to guide to 2014 yet, but what I will say is we remain committed to the 18% operating margin target for this year. I think quite frankly we've been pretty proactive along the way for the first half of the year in managing costs. We have taken action – or are in the process of taking action that will result in annualized run rate savings of about \$50 million for next year. I think it's also important to note that for the full year this year we expect total OpEx dollars to be down from last year. So we will continue to modulate the cost structure to reflect the pacing of revenues and size the business accordingly, and that's our plan. And quite frankly, I feel pretty confident in that.

Operator: Our next question comes from Simona Jankowski of Goldman Sachs.

<Q – Simona Jankowski – Goldman Sachs & Co. >: Hi. Thank you so much. So you commented on the macro challenges in the Enterprise segment and some of the large deals that have pushed out into Q4 and 2014. Are all of those deals still in the pipeline or have any of them gone to competitive solutions?

And then just specifically to the traction that you talked about with the MC40 and the SB1, just wanted to get a little bit more color there of who you're going up against? You know, what you're seeing, if anything,

in terms of off-the-shelf solutions, either iOS or Android-based, and just how those competitive discussions are going.

<A – Mark Moon – Motorola Solutions, Inc.>: So when you think about the push-outs for Enterprise, Simona, in North America in particular we had four very large nationwide retailers that actually selected us but in very detailed conversations said they were going to push out their deployments for later in the year, or a couple of them into next year. We also had a very similar conversation with a big-box retailer in the U.K. So, to answer your question, we're not competitively losing these deals. It really is a delay in IT CapEx kind of spending that's driving this piece. Much different than what we really anticipated when we gave our previous guidance. I think, as we think about competition, we believe that we're still holding share. So, as Greg mentioned, we think this is a phenomenon that is being experienced throughout, and we're excited about that particular piece, but disappointed that it is pushing out.

When you think about new products, the SB1, as you mentioned, is primarily a task-specific tool to give workers the ability to do tasks on the go, not really competing against consumer devices necessarily. It's really a device to give more efficiency and effectiveness to a broader base of workers. Our MC40 does move in to the expansion category of customer facing where you would see competition against consumer devices, other types of products.

You ask about trials. We're trialing with several major customers both in the U.S. and in the U.K. In fact, the SB1 was really designed around the requirements for Tesco in the U.K. and they're trialing it. We're also doing a number of pilots here in the U.S. with the MC40, some of which have tried consumer devices. So I think it's very positive. The piece that has been less positive at the – as – is that the pilots continue, and I will say continue successfully, but the conversion to actual projects have clearly been delayed.

<Q – Simona Jankowski – Goldman Sachs & Co.>: Terrific. Thank you.

Operator: Our next question comes from Ehud Gelblum of Morgan Stanley.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: Hey, guys. Appreciate it. Thank you. Good morning. First, Ed, it's the clarification on the tax credits this quarter. I think it was at \$118 million is what you said. Is that – I had down a 0% tax rate so I think that was – if you can just kind of go over where the tax credits this quarter came from and how they differ from what we had before. And I might be just remembering things wrong from the Analyst Day. That'll be great.

And then, Greg, when you – by going towards an operating margin target of 18% and making that the number one goal even on the lower revenue rate, can you give us some insight into where the areas are that you cut to get there? And if in fact that's partially in R&D how can you be sure you're not maybe mortgaging the future by cutting back a little bit too much when you should be actually investing to grow the business as opposed to just focusing on the cost cutting? And then as you look at, again at these push outs from these retailers and from the other things that are slowing down the business, how do you get comfortable with the fact that this isn't either a secular trend towards consumer, especially because retail with all the different sectors is probably the primary area where people are at least testing consumer devices like iPhones and Android devices as well as the Microsoft OS shift and how that's impacting this. Is that perhaps what's causing some of these push outs as they're looking for the OS to get more stable? How do you get comfortable with the difference between a secular trend and one that's just cyclical with Enterprise push outs? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: So let me – Ehud, let me take the cost reduction one first. I mentioned that we've already taken action that we think will result in annualized savings for \$50

million on an annual run rate. When I think of the larger areas that we've taken action in, they're largely in manufacturing capacity. They're in supply chain and procurement. They're in sales and marketing. R&D is on the lower end of the reductions and the actions that we've taken. So we remain committed to continue to lead and get high return on invested capital of R&D spend, which I anticipate will be right around \$1 billion again. So I don't think we're impairing or impugning any of our capacity from a new product and innovation standpoint and we're not confused at all about that point.

To your second point about cyclical versus structural is in part jumping on Mark Moon's earlier answer to Simona. We're engaged on some of these new expansion products. We're very mindful of the engagements. In fact, some of these pilots are customers that have rolled out or trialed consumer product. And for a variety of reasons, whether it be voice, whether it be optimized voice, integration with Wi-Fi, post sales support, ruggedization, in fact they're reengaging us around the MC40. So, I still believe and we still believe that this compression in Enterprise is more cyclical than structural because of the engagement and the direct discussions we have with customers.

To your point, I think Microsoft OS transition is a component. They had the big reorganization just a few weeks ago. They're reintroducing or modifying Win Phone 8. When they do that typically they then add the Enterprise version, in our case Windows Embedded Handheld that trails that. So that OS for Enterprise utilization for us is a 2000 – mid 2014 kind of phenomenon. We do think that's a contributor but we still believe it's largely cyclical versus structural. But we watch it very closely, Ehud.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: So, Ehud, on the tax side, I mean, if you remember at the Analyst Day I had talked there roughly orders of magnitude talked about \$100 million benefit that we record in the second quarter. It was \$118 million which was a bit better than we expected. The full year benefit I had quantified at approximately \$300 million, will be a bit better than that for the full year. And with that we kind of embedded that into the 10% to 13% effective tax rate that we'll see for Q3 and for Q4 and that which kind of – we tightened the benefit from 10% to 15% that we had talked about at the Analyst Day.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: Okay. So I guess I just had gotten it wrong before the Analyst Day. So that's very helpful. Can I sneak in one more thing about the LTE funnel? Greg you'd spoken in the past about \$1 billion LTE funnel and then some time ago raised that to \$1.5 billion LTE funnel, mainly driven by international. Is that something that we can still look towards at some point? Or is that – has it gotten a little fuzzier with the recent changes in the LTE landscape?

<A – Mark Moon – Motorola Solutions, Inc.>: Yeah. Ehud, this is Mark. I think the funnel size has really remained unchanged or actually would've increased slightly. What's happened though is it continues to elongate actually traction. So you understand what's going on in North America and I think as FirstNet continues to delay, we know about that delay, we talked about this primarily being international. And I think the international engagements that we've had have been slower than we thought to bring to actual contract, which is why now we've pushed the revenue out of the year. But funnel activity and engagement and really no competitive losses have really stayed intact.

<Q – Ehud Gelblum – Morgan Stanley & Co. LLC>: Great. I appreciate it. Thank you, guys.

Operator: Our next question comes from Keith Housum of Northcoast Research.

<Q – Keith Housum – Northcoast Research Partners LLC>: Good morning, gentlemen. Thanks for taking my call. A question for you on the Asia management change you guys have discussed occurring earlier in the year. I guess how is that progressing and are you satisfied with the traction that you're

seeing in the Government space in terms of trying to penetrate lower into the smaller regions and then obviously as it plays out into the WLAN business as well?

<A – Mark Moon – Motorola Solutions, Inc.>: Perfect. So as we talked about earlier and we've talked each quarter about Asia, I think the management transition and actually our restructuring in the region is progressing very well. In fact, while we talked about in Q1 the Government business was down further than we expected, we also commented that we expected it to improve each quarter as we went throughout the year and for us to build backlog as we were going through the year. That has indeed happened. Our losses in second quarter are less than what they were in first quarter and as we move to third quarter they will continue to improve. We are also exiting the quarter with more backlog.

So the plan is in place and the team is doing well. I'm also very pleased with the Enterprise traction that we're gaining as we move to our different kind of geographic structure to get more attention. So the Enterprise business in total is also improving throughout the region. I think in the emerging markets that we talked about that we really wanted to get after, that will be more new order activity as we exit the year to build for future growth. But again, I think we're making good traction and I'm pleased so far with the actions that have been taken.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. And how does that translate into the WLAN business? Is that recovering at all? Because you obviously have had a few past quarters of some significantly down year-over-year comparisons?

<A – Greg Brown – Motorola Solutions, Inc.>: This is Greg. WLAN improved from last quarter but it still declined, it declined 5%. And we know that's not satisfactory especially given the fact that the industry as a whole is growing probably double-digit or low double-digit growth. So we continue to lose share there. Now interestingly enough, we have some very, very nice opportunities and customer discussions that are going on right now. Cautiously optimistic and as I've said before, we're in transition from – WLAN is a product play, it's more of a services play and – but we're closely monitoring the business and we need to do better and we know that.

<Q – Keith Housum – Northcoast Research Partners LLC>: Great. Thank you. Appreciate it.

Operator: Our next question comes from Tim Long of BMO Capital Markets.

<Q – Tim Long – BMO Capital Markets (United States)>: Thank you. Two questions if I could, sorry about the voice. First, on the margin expectations going forward, you talked a little bit about OpEx. Just give us a little view on gross margin. Do you see any potential for that contributing in the second half and as we look out into next year? And then second, Greg, if I could a longer-term question on LTE. What's your view as these networks become more standardized networks? What do you think the impact would be on MSI's more device related business? Does it make it much more competitive since it's a much more open type of technology? Thank you.

<A – Greg Brown – Motorola Solutions, Inc.>: I think I'll take the second one. I think LTE in general is a favorable trend to our business. On the voice side there's literally billions of dollars installed base for narrowband interoperable voice. It's built around a P25 standard. You know the position that we have there in ASTRO and TETRA. The idea in the U.S. behind FirstNet is a very good one. It dedicates spectrum in the 700 megahertz slice, it designates as an open standard of LTE and it provides money. So historically in public safety, some of the gates have been spectrum standards and funding, and the legislation here the U.S. contemplates and largely solves for that.

I think what also will happen as these broadband networks get contemplated in the U.S., and internationally, and specifically, specifically around public safety, preemption versus a carrier model of prioritization, control, group call, direct, redundancy, encryption. I think those characteristics about interoperable LTE broadband are generally favorable to us because we have that expertise. We have that domain expertise, and we can build an end-to-end LTE network of infrastructure, software and subscribers to your point. So we view it as a favorable trend, both domestically and internationally.

<A – Ed Fitzpatrick – Motorola Solutions, Inc.>: On the margin front, I'd say the expectation to be relatively stable. The fourth quarter typically we do a bit better. Shipments are typically higher. You'll see a higher component likely at product sales as we talked about compression a bit in the Enterprise space, because product sales have been the majority of the decline. As that returns, we'll expect a little bit better – and overall with factory utilization being a bit higher fourth quarter, you typically will see it a bit higher in the fourth quarter as you traditionally would.

<A – Mark Moon – Motorola Solutions, Inc.>: Throughout our core businesses in general margin performance has been very good. We're pleased with that. We'll be down slightly year-on-year, but as we mentioned in the past that's primarily driven by Psion and iDEN. So again, throughout the core portfolio margins have held fairly consistent.

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

Operator: Our final question comes from Peter Misek of Jefferies.

<Q – Peter Misek – Jefferies LLC>: Good morning, gentlemen. The big question that we have is around the timing of the Enterprise product launches for the balance of the year. Really want to help understand that. I kind of have difficulty again on the Q4 ramp, as many of my peers are, and really would appreciate that. Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: In terms of product launches, we've already launched, largely, the products that we're referencing. The SB1 is launched. The multi-plane scanner is launched. The MC40 is launched, and the other discussions that – some of which Mark has referenced, are all with products that are already available. So we're not betting on the come here. And again when you incorporate the flat to negative 3% for this quarter, and then you look at what growth needs to be in Q4, and we are typically a seasonally very, very strong Q4 business, it is contemplates a mid-single digit kind of growth rate. Again, on Enterprise coming off of a negative 10% compare in Q3, and a negative 10% compare in Q4, so that's kind of the foundation of logic that we have moving forward.

<Q – Peter Misek – Jefferies LLC>: And if I may squeeze one in on the competitive landscape for LTE. There's been some discussion that – and I know you said generally you felt LTE was a tailwind for you folks. There is a hypothesis out there that LTE actually removes some of your advantages. Can you help us understand the key differentiator that you would have versus a Harris or Raytheon in the LTE deployment? Maybe in and around the peer-to-peer technology that you have, ruggedization et cetera. Just want maybe a little bit of an elaboration there? Thanks.

<A – Greg Brown – Motorola Solutions, Inc.>: Well I think that respectively to our competitors, there's no one that has the R&D spend, the patent portfolio, the domain expertise and the product portfolio that we have in LTE. Remember, we started investing over three years ago in infrastructure, software and devices, whether it be USB dongle, a converged LEX 700, a vehicular modem and the like. In addition to that, we have a strategic partnership with Ericsson worldwide with eight years left.

So as you take the worldwide leader in public safety in Motorola solutions, and the worldwide leader in commercial LTE in Ericsson, and we're optimizing our two product portfolios to be able to marry and merge and interoperate between a private network and a public network, and seamlessly roam accordingly, I think the distinction and differentiation is substantial. And we expect to maintain or extend that competitive lead.

Shep Dunlap, Vice President-Investor Relations

Okay. I'd like to remind everyone the details outlining the highlighted items are GAAP and non-GAAP, P&L reconciliations and other financial information can be found on our motorolasolutions.com investor relations site. An audio replay together with a copy of today's slides will also available on the site shortly after the conclusion of this call. As mentioned at the outset, during this call, we have made a number of forward-looking statements within the meaning of applicable federal securities law.

Such forward-looking statements include but are not limited to our comments and answers related to the following topics: future sales growth including by segment and product, future operating margins, EPS outlook, operating cash flow, the amount of other income and expense, future tax rates and tax payments, tax benefits to be realized as a result of our new holding company structure, impact of FX rates, share repurchase and dividends, recovery of our Enterprise business including timing and competitive pressure, management of our cost structure resulting in savings, impact of narrowbanding, the timing and impact of new products and solutions introductions including OS developments and demand trends for our business and products such as ASTRO, TETRA, LTE and WLAN.

Because forward-looking statements involve risks and uncertainties, Motorola Solutions actual results could differ materially from those stated in these forward-looking statements. Information about the factors that could cause and in some cases have caused such differences can be found in this morning's press release on Pages 8 through 12 and item 1-A of our 2012 annual report on Form 10-K and Motorola Solutions' other SEC filings.

Thanks again. We look forward to speaking to you soon.

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