Motorola Solutions, Inc.
Form 10-Q
August 05, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the period ended June 28, 2014

or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number: 1-7221

MOTOROLA SOLUTIONS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation)	36-1115800 (I.R.S. Employer Identification No.)
1303 E. Algonquin Road, Schaumburg, Illinois (Address of principal executive offices)	60196 (Zip Code)

Registrant's telephone number, including area code:
(847) 576-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer" "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on June 28, 2014:

Class	Number of Shares
Common Stock; $.01 Par Value	250,878,592

Part I—Financial Information
Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 28, 2014	Three Months Ended June 29, 2013	Six Months Ended June 28, 2014	Six Months Ended June 29, 2013
Net sales from products	$887	$986	$1,640	$1,899
Net sales from services	506	511	982	994
Net sales	1,393	1,497	2,622	2,893
Costs of product sales	400	435	751	840
Costs of services sales	337	312	638	610
Costs of sales	737	747	1,389	1,450
Gross margin	656	750	1,233	1,443
Selling, general and administrative expenses	308	339	615	665
Research and development expenditures	176	195	350	382
Other charges	34	13	23	20
Operating earnings	138	203	245	376
Other income (expense):				
Interest expense, net	(29)	(32)	(54)	(57)
Gains (losses) on sales of investments and businesses, net	(4)	—	4	7
Other	(7)	(3)	(9)	(3)
Total other expense	(40)	(35)	(59)	(53)
Earnings before income taxes	98	168	186	323
Income tax expense (benefit)	20	(59)	23	(61)
Earnings from continuing operations	78	227	163	384
Earnings from discontinued operations, net of tax	746	35	788	70
Net earnings	824	262	951	454
Less: Earnings attributable to noncontrolling interests	—	4	—	4
Net earnings attributable to Motorola Solutions, Inc.	$824	$258	$951	$450
Amounts attributable to Motorola Solutions, Inc. common stockholders:				
Earnings from continuing operations, net of tax	$78	$223	$163	$380
Earnings from discontinued operations, net of tax	746	35	788	70
Net earnings	$824	$258	$951	$450
Earnings per common share:				
Basic:				
Continuing operations	$0.31	$0.83	$0.64	$1.40
Discontinued operations	2.94	0.13	3.11	0.26
	$3.25	$0.96	$3.75	$1.66
Diluted:				
Continuing operations	$0.30	$0.81	$0.63	$1.37
Discontinued operations	2.92	0.13	3.07	0.25
	$3.22	$0.94	$3.70	$1.62
Weighted average common shares outstanding:				
Basic	253.7	269.5	253.8	271.9
Diluted	256.2	274.7	257.2	277.7

Dividends declared per share	$0.31	0.26	$0.62	0.52

See accompanying notes to condensed consolidated financial statements (unaudited).

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Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In millions)	Three Months Ended June 28, 2014	Three Months Ended June 29, 2013
Net earnings	$824	$262
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of $5 and $10	11	16
Foreign currency translation adjustment, net of tax of $(5) and $(5)	13	(5)
Reclassification of net loss on derivative instruments, net of tax of $– and $–	1	—
Net unrealized loss on securities, net of tax of $– and $–	—	(1)
Total other comprehensive income	25	10
Comprehensive income	849	272
Less: Earnings attributable to noncontrolling interest	—	4
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	$849	$268

(In millions)	Six Months Ended June 28, 2014	Six Months Ended June 29, 2013
Net earnings	$951	$454
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of $11 and $19	24	35
Foreign currency translation adjustment, net of tax of $(4) and $(6)	15	(42)
Reclassification of net loss (gain) on derivative instruments, net of tax of $– and $–	1	(1)
Net unrealized gains (losses) on securities, net of tax of $(2) and $–	2	(1)
Total other comprehensive income (loss)	42	(9)
Comprehensive income	993	445
Less: Earnings attributable to noncontrolling interest	—	4
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	$993	$441

See accompanying notes to condensed consolidated financial statements (unaudited).

Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited)

(In millions, except par value)	June 28, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$2,876	$3,225
Accounts receivable, net	1,185	1,369
Inventories, net	330	347
Deferred income taxes	1,205	451
Other current assets	527	635
Current assets held for disposition	943	993
Total current assets	7,066	7,020
Property, plant and equipment, net	682	695
Investments	236	232
Deferred income taxes	1,909	1,990
Goodwill	383	361
Other assets	128	89
Non-current assets held for disposition	1,464	1,464
Total assets	$11,868	$11,851
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$4	$4
Accounts payable	453	583
Accrued liabilities	1,615	1,763
Current liabilities held for disposition	852	870
Total current liabilities	2,924	3,220
Long-term debt	2,446	2,457
Other liabilities	2,151	2,314
Non-current liabilities held for disposition	178	171
Stockholders' Equity		
Preferred stock, $100 par value	—	—
Common stock, $.01 par value:	3	3
Authorized shares: 600.0		
Issued shares: 6/28/14—252.0; 12/31/13—255.5		
Outstanding shares: 6/28/14—250.9; 12/31/13—254.5		
Additional paid-in capital	3,162	3,518
Retained earnings	3,219	2,425
Accumulated other comprehensive loss	(2,245)	(2,287)
Total Motorola Solutions, Inc. stockholders' equity	4,139	3,659
Noncontrolling interests	30	30
Total stockholders' equity	4,169	3,689
Total liabilities and stockholders' equity	$11,868	$11,851

See accompanying notes to condensed consolidated financial statements (unaudited).

Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

(In millions)	Shares	Common Stock and Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Noncontrolling Interests
Balance as of December 31, 2013	255.5	$ 3,521	$ (2,287)	$ 2,425	$ 30
Net earnings				951	
Net unrealized gains on securities, net of tax of $(2)			2		
Foreign currency translation adjustments, net of tax of $(4)			15		
Amortization of retirement benefit adjustments, net of tax of $11			24		
Issuance of common stock and stock options exercised	3.6	44			
Share repurchase program	(7.1)	(473)			
Excess tax benefit from share-based compensation		6			
Share-based compensation expense		67			
Net loss on derivative hedging instruments, net of tax of $–			1		
Dividends declared				(157)	
Balance as of June 28, 2014	252.0	$ 3,165	$ (2,245)	$ 3,219	$ 30

See accompanying notes to condensed consolidated financial statements (unaudited).

Motorola Solutions, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(In millions)	Six Months Ended June 28, 2014	Six Months Ended June 29, 2013
Operating		
Net earnings attributable to Motorola Solutions, Inc.	$951	$450
Earnings attributable to noncontrolling interests	—	4
Net earnings	951	454
Earnings from discontinued operations, net of tax	788	70
Earnings from continuing operations, net of tax	163	384
Adjustments to reconcile Earnings from continuing operations to Net cash provided by (used for) operating activities from continuing operations		
Depreciation and amortization	86	76
Gain on sale of building and land	(21)	—
Non-cash other income	(5)	(7)
Share-based compensation expense	54	62
Gains on sales of investments and businesses, net	(4)	(7)
Deferred income taxes	6	(193)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	190	78
Inventories	17	14
Other current assets	76	(23)
Accounts payable and accrued liabilities	(299)	(479)
Other assets and liabilities	(133)	(5)
Net cash provided by (used for) operating activities from continuing operations	130	(100)
Investing		
Acquisitions and investments, net	(11)	(8)
Proceeds from sales of investments and businesses, net	21	21
Capital expenditures	(82)	(79)
Proceeds from sales of property, plant and equipment	24	15
Proceeds from sales of Sigma Fund investments, net	—	376
Net cash provided by (used for) investing activities from continuing operations	(48)	325
Financing		
Repayment of debt	(2)	(2)
Net proceeds from issuance of debt	4	593
Issuance of common stock	85	99
Purchase of common stock	(473)	(907)
Excess tax benefit from share-based compensation	6	18
Payment of dividends	(158)	(143)
Distributions from discontinued operations	100	137
Net cash used for financing activities from continuing operations	(438)	(205)
Discontinued Operations		
Net cash provided by operating activities from discontinued operations	89	152
Net cash provided by (used for) investing activities from discontinued operations	11	(17)
Net cash used for financing activities from discontinued operations	(100)	(137)
Effect of exchange rate changes on cash and cash equivalents from discontinued operations	—	2
Net cash provided by discontinued operations	—	—

Effect of exchange rate changes on cash and cash equivalents from continuing operations	7	(31)
Net decrease in cash and cash equivalents	(349)	(11)
Cash and cash equivalents, beginning of period	3,225	1,468
Cash and cash equivalents, end of period	$2,876	$1,457
Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest, net	$67	$58
Income and withholding taxes, net of refunds	31	68

See accompanying notes to condensed consolidated financial statements (unaudited).

Motorola Solutions, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Dollars in millions, except as noted)
(Unaudited)

1. Basis of Presentation

The condensed consolidated financial statements as of June 28, 2014 and for the three and six months ended June 28, 2014 and June 29, 2013, include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the condensed consolidated balance sheets, statements of operations, statements of comprehensive income, statement of stockholders' equity, and statements of cash flows of Motorola Solutions, Inc. ("Motorola Solutions" or the "Company") for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 2013. The results of operations for the three and six months ended June 28, 2014 are not necessarily indicative of the operating results to be expected for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-05, "Service Concession Arrangements." The ASU clarifies that an operating entity should not account for a services concession arrangement with a public-sector grantor as a lease if: (i) the grantor controls or has the ability to modify or approve the services the operating entity must provide, to whom it must provide them, and at what price and (ii) the grantor controls any residual interest in the infrastructure at the end of the arrangement. In addition, the infrastructure used in a service concession arrangement would not be recognized as property, plant and equipment of the operating entity. The ASU is to be applied on a modified retrospective basis to service concession arrangements outstanding upon adoption and will be effective for the Company beginning January 1, 2015. The Company is currently assessing the impact of this standard on its consolidated financial statements and footnote disclosures.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." This new standard will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the ASU is that an entity should recognize revenue for the transfer of goods or services equal to the amount it expects to receive for those goods and services. The ASU requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and estimates and changes in those estimates. The ASU will be effective for the Company beginning January 1, 2017, and allows for both retrospective and modified-retrospective methods of adoption. The Company is in the process of determining the method of adoption it will elect and is currently assessing the impact of this ASU on its consolidated financial statements and footnote disclosures.

2. Discontinued Operations

On April 14, 2014, the Company entered into a Master Acquisition Agreement (the “Acquisition Agreement”) with Zebra Technologies Corporation to sell the Company’s Enterprise business for $3.45 billion in cash. Certain assets of the Enterprise business will be excluded from the transaction and retained by the Company, including the Company’s iDEN business, and other assets and certain liabilities as specified in the Acquisition Agreement. The transaction is expected to close by the end of 2014. The historical financial results of the Enterprise business, excluding those assets and liabilities retained in the transaction, are reflected in the Company's condensed consolidated financial statements and footnotes as discontinued operations for all periods presented.

The following table displays summarized activity in the Company's condensed consolidated statements of operations for discontinued operations during the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Net sales	$560	$610	$1,133	$1,187
Operating earnings	55	63	118	106
Loss on sales of investments and businesses, net	(1)	—	(1)	—
Investment impairments	(3)	(2)	(3)	(2)
Earnings before income taxes	50	57	112	106
Income tax expense (benefit)	(696)	22	(676)	36
Earnings from discontinued operations, net of tax	$746	$35	$788	$70

During the three months ended June 28, 2014, the Company recorded a $721 million tax benefit to establish a deferred tax asset associated with an outside basis difference which we now expect to realize in the foreseeable future. The tax benefit represents the excess of the tax basis of our investment in the Enterprise subsidiaries over the financial statement carrying value (the deductible outside basis difference).

The following table displays a summary of the assets and liabilities held for sale as of June 28, 2014 and December 31, 2013:

	June 28, 2014	December 31, 2013
Assets:		
Accounts receivable, net	$468	$551
Inventories, net	215	175
Deferred income taxes	225	219
Other current assets	132	134
Property, plant and equipment, net	94	115
Investments	20	19
Goodwill	1,151	1,149
Other assets	102	95
	$2,407	$2,457
Liabilities:		
Accounts payable	$196	$231
Accrued liabilities	656	639
Other liabilities	178	171
	$1,030	$1,041

3. Other Financial Data

Statement of Operations Information

Other Charges

Other charges included in Operating earnings consist of the following:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Other charges (income):				
Intangibles amortization	$1	$—	$2	$—
Reorganization of businesses	25	13	34	20
Legal settlement	8	—	8	—
Gain on sale of building and land	—	—	(21)	—
	$34	$13	$23	$20

During the first quarter of 2014, the Company completed the sale of a building and parcel of land on its Schaumburg, IL campus with a net book value of $3 million for net cash proceeds of $24 million resulting in a gain on sale of $21 million.

Other Income (Expense)

Interest expense, net, and Other, both included in Other income (expense), consist of the following:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Interest income (expense), net:				
Interest expense	$(34)	$(38)	$(64)	$(68)
Interest income	5	6	10	11
	$(29)	$(32)	$(54)	$(57)
Other:				
Investment impairments	—	(2)	—	(2)
Foreign currency loss	(8)	(4)	$(10)	$(7)
Gains on equity method investments	2	1	2	—
Other	(1)	2	(1)	6
	$(7)	$(3)	$(9)	$(3)

Earnings Per Common Share

The computation of basic and diluted earnings per common share is as follows:

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		Net Earnings	
Three Months Ended	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Basic earnings per common share:				
Earnings	$78	$223	$824	$258
Weighted average common shares outstanding	253.7	269.5	253.7	269.5
Per share amount	$0.31	$0.83	$3.25	$0.96
Diluted earnings per common share:				
Earnings	$78	$223	$824	$258
Weighted average common shares outstanding	253.7	269.5	253.7	269.5
Add effect of dilutive securities:				
Share-based awards	2.5	5.2	2.5	5.2
Diluted weighted average common shares outstanding	256.2	274.7	256.2	274.7
Per share amount	$0.30	$0.81	$3.22	$0.94

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		Net Earnings	
Six Months Ended	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Basic earnings per common share:				
Earnings	$163	$380	$951	$450
Weighted average common shares outstanding	253.8	271.9	253.8	271.9
Per share amount	$0.64	$1.40	$3.75	$1.66
Diluted earnings per common share:				
Earnings	$163	$380	$951	$450
Weighted average common shares outstanding	253.8	271.9	253.8	271.9
Add effect of dilutive securities:				
Share-based awards	3.4	5.8	3.4	5.8
Diluted weighted average common shares outstanding	257.2	277.7	257.2	277.7
Per share amount	$0.63	$1.37	$3.70	$1.62

In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three and six months ended June 28, 2014, the assumed exercise of 4.6 million and 4.8 million stock options, respectively, were excluded because their inclusion would have been antidilutive. In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three and six months ended June 29, 2013, the assumed exercise of 4.3 million and 4.4 million stock options, respectively, were excluded because their inclusion would have been antidilutive.

Balance Sheet Information

Cash and Cash Equivalents

The Company’s cash and cash equivalents (which are highly-liquid investments with an original maturity of three months or less) were $2.9 billion at June 28, 2014 and $3.2 billion at December 31, 2013. Of these amounts, $64 million at June 28, 2014 and $63 million at December 31, 2013 were restricted.

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Investments

Investments consist of the following:

	June 28, 2014	December 31, 2013
Available-for-sale securities:		
Government, agency, and government-sponsored enterprise obligations	$15	$15
Corporate bonds	8	7
Mutual funds	11	11
Common stock and equivalents	—	2
	34	35
Other investments, at cost	185	182
Equity method investments	17	15
	$236	$232

The Company had no unrealized gains or losses on its investments as of both June 28, 2014 and December 31, 2013.

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	June 28, 2014	December 31, 2013
Accounts receivable	$1,240	$1,422
Less allowance for doubtful accounts	(55)	(53)
	$1,185	$1,369

Inventories, Net

Inventories, net, consist of the following:

	June 28, 2014	December 31, 2013
Finished goods	$142	$157
Work-in-process and production materials	313	315
	455	472
Less inventory reserves	(125)	(125)
	$330	$347

Other Current Assets

Other current assets consist of the following:

	June 28, 2014	December 31, 2013
Costs and earnings in excess of billings	$374	$390
Contract-related deferred costs	14	15
Tax-related deposits and refunds receivable	64	107
Other	75	123
	$527	$635

Property, Plant and Equipment, Net

Property, plant and equipment, net, consists of the following:

	June 28, 2014	December 31, 2013
Land	$21	$22
Building	554	582
Machinery and equipment	1,840	1,760
	2,415	2,364
Less accumulated depreciation	(1,733)	(1,669)
	$682	$695

Depreciation expense for the three months ended June 28, 2014 and June 29, 2013 was $45 million and $40 million, respectively. Depreciation expense for the six months ended June 28, 2014 and June 29, 2013 was $84 million and $75 million, respectively.

Other Assets

Other assets consist of the following:

	June 28, 2014	December 31, 2013
Intangible assets, net	$24	$6
Long-term receivables	18	1
Other	86	82
	$128	$89

Accrued Liabilities

Accrued liabilities consist of the following:

	June 28, 2014	December 31, 2013
Deferred revenue	$333	$359
Compensation	212	315
Billings in excess of costs and earnings	354	295
Tax liabilities	76	85
Customer reserves	44	52
Dividend payable	78	79
Other	518	578
	$1,615	$1,763

Other Liabilities

Other liabilities consist of the following:

	June 28, 2014	December 31, 2013
Defined benefit plans, including split dollar life insurance arrangements	$1,654	$1,751
Postretirement health care benefit plan	118	118
Deferred revenue	150	162
Unrecognized tax benefits	57	99
Other	172	184
	$2,151	$2,314

Stockholders’ Equity

Share Repurchase Program: The Company paid an aggregate of $416 million during the second quarter of 2014, including transaction costs, to repurchase approximately 6.2 million shares at an average price of $66.96 per share. The Company paid an aggregate of $473 million during the first half of 2014, including transaction costs, to repurchase approximately 7.1 million shares at an average price of $66.88 per share. As of June 28, 2014, the Company had used approximately $5.7 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving $1.3 billion of authority available for future repurchases.

Payment of Dividends: During the three months ended June 28, 2014 and June 29, 2013, the Company paid $79 million and $71 million, respectively, in cash dividends to holders of its common stock. During the six months ended June 28, 2014 and June 29, 2013, the Company paid $158 million and $143 million, respectively, in cash dividends to holders of its common stock.

On July 31, 2014, the Company announced that its Board of Directors approved an increase in the quarterly cash dividend from $0.31 per share to $0.34 per share of common stock.

Accumulated Other Comprehensive Loss

The following table displays the changes in Accumulated other comprehensive loss, net of tax, by component from January 1, 2014 to June 28, 2014:

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses on Available-for-Sale Securities	Retirement Benefit Items	Foreign Currency Translation Adjustments	Total
Balance as of January 1, 2014	$(1)	$ (2)	$(2,188)	$(96)	$(2,287)
Other comprehensive income before reclassifications	—	2	—	15	17
Amounts reclassified from accumulated other comprehensive loss	1	—	24	—	25
Current period change in Other comprehensive income	1	2	24	15	42
Balance as of June 28, 2014	$—	$ —	$(2,164)	$(81)	$(2,245)

The following table displays the amounts reclassified from Accumulated other comprehensive loss and the affected line items in the condensed consolidated statement of operations during the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended		
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	
Loss (gain) on cash flow hedges:					
Foreign exchange contracts	$1	$—	$1	$(1)	Cost of sales
	1	—	1	(1)	Net of tax
Amortization of retirement benefit items:					
Prior service costs	$(9)	(14)	$(18)	$(25)	Selling, general, and administrative expenses
Actuarial net losses	25	40	53	79	Selling, general, and administrative expenses
	16	26	35	54	Total before tax
	(5)	(10)	(11)	(19)	Tax benefit
	$11	$16	$24	$35	Net of tax
Total reclassifications for the period, net of tax	$12	$16	$25	$34	

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4. Debt and Credit Facilities

As of June 28, 2014, the Company had a $2.0 billion unsecured syndicated revolving credit facility (the “2014 Motorola Solutions Credit Agreement”) scheduled to mature on May 29, 2019. Effective May 29, 2014, this facility replaced the previous $1.5 billion unsecured syndicated revolving credit facility (the “2011 Motorola Solutions Credit Agreement”) which was scheduled to mature on June 30, 2014. The Company must comply with certain customary covenants, including maximum leverage ratio as defined in the 2014 Motorola Solutions Credit Agreement. The Company is no longer subject to a minimum interest coverage covenant under the new facility. The Company was in compliance with its financial covenants as of June 28, 2014. The Company did not borrow under the 2011 Motorola Solutions Credit Agreement or the 2014 Motorola Solutions Credit Agreement during the three and six months ended June 28, 2014.

As of June 28, 2014, the Company had a letter of credit sub-limit of $450 million under the 2014 Motorola Solutions Credit Agreement. No letters of credit were issued under the revolving credit facility as of June 28, 2014.

During the first quarter of 2013, the Company issued an aggregate face principal amount of $600 million of 3.500% Senior Notes due 2023, of which, after debt issuance costs and debt discounts, the Company recognized net proceeds from issuance of this debt of $588 million.

5. Risk Management

Foreign Currency Risk

At June 28, 2014, the Company had outstanding foreign exchange contracts with notional amounts totaling $867 million, compared to $837 million outstanding at December 31, 2013. The Company does not believe these financial instruments should subject it to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset gains and losses on the underlying assets, liabilities and transactions, except for the ineffective portion of the instruments, which are charged to Other within Other income (expense) in the Company’s condensed consolidated statements of operations.

The following table shows the five largest net notional amounts of the positions to buy or sell foreign currency as of June 28, 2014, and the corresponding positions as of December 31, 2013:

	Notional Amount	
Net Buy (Sell) by Currency	June 28, 2014	December 31, 2013
British Pound	$243	$257
Chinese Renminbi	(184)	(181)
Euro	146	(132)
Norwegian Krone	(120)	(95)
Brazilian Real	(54)	(44)

Interest Rate Risk

At June 28, 2014, the Company had $2.5 billion of long-term debt, including the current portion, which is primarily priced at long-term, fixed interest rates.

As part of its liability management program, one of the Company’s European subsidiaries has outstanding interest rate agreements (“Interest Agreements”) relating to Euro-denominated loans. The interest on the Euro-denominated loans is variable. The Interest Agreements change the characteristics of interest payments from variable to maximum fixed-rate payments. The Interest Agreements are not accounted for as a part of a hedging relationship and, accordingly, the changes in the fair value of the Interest Agreements are included in Other income (expense) in the Company’s condensed consolidated statements of operations. The fair value of the Interest Agreements was in a liability position of $3 million at June 28, 2014 and December 31, 2013.

Counterparty Risk

The use of derivative financial instruments exposes the Company to counterparty credit risk in the event of non-performance by counterparties. However, the Company’s risk is limited to the fair value of the instruments when the derivative is in an asset position. The Company actively monitors its exposure to credit risk. As of June 28, 2014, all of the counterparties have investment grade credit ratings. As of June 28, 2014, the Company had no exposure to aggregate net credit risk with all counterparties.

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The following tables summarize the fair values and location in the condensed consolidated balance sheets of all derivative financial instruments held by the Company at June 28, 2014 and December 31, 2013:

	Fair Values of Derivative Instruments			
	Assets		Liabilities	
June 28, 2014	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$1	Other assets	$3	Other liabilities
Interest agreements	—	Other assets	3	Other liabilities
Total derivatives	$1		$6	

	Fair Values of Derivative Instruments			
	Assets		Liabilities	
December 31, 2013	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$—	Other assets	$1	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	4	Other assets	1	Other liabilities
Interest agreements	—	Other assets	3	Other liabilities
Total derivatives not designated as hedging instruments	4		4	
Total derivatives	$4		$5	

The following table summarizes the effect of derivative instruments in the Company's condensed consolidated statements of operations for the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended		
Gain (loss) on Derivative Instruments	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	Statements of Operations Location
Derivatives not designated as hedging instruments:					
Interest rate contracts	$—	$1	$—	$1	Other income (expense)
Foreign exchange contracts	(1)	8	(2)	(9)	Other income (expense)
Total derivatives not designated as hedging instruments	$(1)	$9	$(2)	$(8)	

The following table summarizes the gains and losses reclassified from Accumulated other comprehensive loss into Net earnings during the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended		
Foreign Exchange Contracts	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	Financial Statement Location
Derivatives in cash flow hedging relationships:					
Gains (losses) reclassified from Accumulated other comprehensive loss into Net earnings	$(1)	$—	$(1)	$1	Costs of sales

6. Income Taxes

During the three months ended June 28, 2014, the Company increased current deferred tax assets by $721 million related to an outside basis difference. The outside basis difference represents the excess of the tax basis of our investment in the Enterprise subsidiaries over the financial statement carrying value (the deductible outside basis difference).

At June 28, 2014 and December 31, 2013, the Company had valuation allowances of $212 million and $200 million, respectively, including $179 million and $178 million, respectively, relating to deferred tax assets for non-U.S. subsidiaries. The Company believes the remaining deferred tax assets are more-likely-than-not to be realizable based on estimates of future taxable income and the implementation of tax planning strategies.

Undistributed earnings the Company intends to reinvest indefinitely, and for which no income taxes have been provided, aggregate to $1.4 billion at June 28, 2014 and December 31, 2013. The Company currently has no plans to repatriate the foreign earnings permanently reinvested and therefore, the time and manner of repatriation is uncertain. If circumstances change and it becomes apparent that some or all of the permanently reinvested earnings will be remitted to the U.S. in the foreseeable future, an additional income tax charge may be necessary.

The Company evaluates its permanent reinvestment assertions with respect to foreign earnings at each reporting period and, except for certain earnings the Company intends to reinvest indefinitely, accrues for the U.S. federal and foreign tax applicable to the earnings. During the first quarter of 2013, the Company reassessed its unremitted earnings position and concluded that certain of its non-U.S. subsidiaries' earnings were permanently reinvested overseas. The Company intends to utilize the offshore earnings to fund foreign investments, such as potential acquisitions and capital expenditures. In the first quarter of 2013, the Company recorded a net tax benefit of $25 million related to reversals of deferred tax liabilities for undistributed foreign earnings due to the change in permanent reinvestment assertion.

As of June 28, 2014, the Company has approximately $650 million of foreign earnings not considered permanently reinvested and which may be repatriated without an additional tax charge, given the U.S. federal and foreign tax accrued on undistributed earnings and the utilization of available foreign tax credits.

The Company had unrecognized tax benefits of $120 million and $147 million at June 28, 2014 and December 31, 2013, respectively, of which $99 million and $125 million, respectively, if recognized, would affect the effective tax rate, net of resulting changes to valuation allowances. During the six months ended June 28, 2014, the Company adjusted its unrecognized tax benefits for prior year tax positions for facts that now indicate the extent to which certain tax positions are more-likely-than-not of being sustained. As a result, the Company recorded a gross increase of $24 million and a gross decrease of $51 million to unrecognized tax benefits for prior year tax positions resulting in a net tax benefit of $27 million.

Based on the potential outcome of the Company’s global tax examinations or the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the unrecognized tax benefits will change within the next twelve months. The associated net tax impact on the effective tax rate, exclusive of valuation allowance changes, is estimated to be in the range of a $50 million tax charge to a $50 million tax benefit, with cash payments not to exceed $25 million.

The Company has audits pending in several tax jurisdictions. Although the final resolution of the Company's global tax disputes is uncertain, based on current information, in the opinion of the Company's management, the ultimate disposition of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution of the Company's global tax disputes could have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations in the periods in which the matters are ultimately resolved.

7. Retirement and Other Employee Benefits

Pension and Postretirement Health Care Benefits Plans

The net periodic costs (benefits) for Pension and Postretirement Health Care Benefits plans were as follows:

	U.S. Pension Benefit Plans		Non U.S. Pension Benefit Plans		Postretirement Health Care Benefits Plan	
Three Months Ended	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Service cost	$—	$—	$4	$3	$1	$—
Interest cost	93	88	20	16	3	3
Expected return on plan assets	(98)	(90)	(23)	(18)	(2)	(3)
Amortization of:						
Unrecognized net loss	21	33	3	3	3	3
Unrecognized prior service cost (benefit)	—	—	2	(2)	(11)	(11)
Net periodic pension cost (benefit)	$16	$31	$6	$2	$(6)	$(8)

	U.S. Pension Benefit Plans		Non U.S. Pension Benefit Plans		Postretirement Health Care Benefits Plan	
Six Months Ended	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Service cost	$—	$—	$7	$6	$1	$1
Interest cost	185	176	40	33	6	6
Expected return on plan assets	(196)	(182)	(45)	(37)	(5)	(5)
Amortization of:						
Unrecognized net loss	44	66	6	6	6	7
Unrecognized prior service cost (benefit)	—	—	3	(4)	(21)	(22)
Net periodic pension cost (benefit)	$33	$60	$11	$4	$(13)	$(13)

During the three months ended June 28, 2014 and June 29, 2013, contributions of $40 million and $26 million were made to the Company's U.S. Pension Benefit Plans, respectively. During both the three months ended June 28, 2014 and June 29, 2013, contributions of $3 million were made to the Company's Non U.S. Pension Benefit Plans.

During the six months ended June 28, 2014 and June 29, 2013, contributions of $66 million and $50 million were made to the Company's U.S. Pension Benefit Plans, respectively. During the six months ended June 28, 2014 and June 29, 2013, contributions of $20 million and $17 million were made to the Company's Non U.S. Pension Benefit Plans, respectively.

The Company made no contributions to its Postretirement Health Care Benefits Plan during the three and six months ended June 28, 2014 and June 29, 2013.

8. Share-Based Compensation Plans

Compensation expense for the Company's employee stock options, stock appreciation rights, employee stock purchase plan, restricted stock and restricted stock units ("RSUs") was as follows:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Share-based compensation expense included in:				
Costs of sales	$3	$4	$7	$8
Selling, general and administrative expenses	16	16	33	38
Research and development expenditures	7	7	14	16
Share-based compensation expense included in Operating earnings	26	27	54	62
Tax benefit	8	8	17	19
Share-based compensation expense, net of tax	$18	$19	$37	$43
Decrease in basic earnings per share	$(0.07)	$(0.07)	$(0.15)	$(0.16)
Decrease in diluted earnings per share	$(0.07)	$(0.07)	$(0.14)	$(0.15)
Share-based compensation expense in discontinued operations	$5	$7	$13	$17

For the six months ended June 28, 2014, the Company granted 1.2 million RSUs and 1.2 million stock options. The total aggregate compensation expense, net of estimated forfeitures, for these RSUs and stock options, including those awards granted to employees of the Enterprise business, was $63 million and $15 million, respectively, which will be recognized over a weighted average vesting period of three years.

9. Fair Value Measurements

The Company holds certain fixed income securities, equity securities and derivatives, which are recognized and disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants as of the measurement date. Fair value is measured using the fair value hierarchy and related valuation methodologies as defined in the authoritative literature. This guidance specifies a hierarchy of valuation techniques based on whether the inputs to each measurement are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's assumptions about current market conditions. The fair value hierarchy and related valuation methodologies are as follows:

Level 1—Quoted prices for identical instruments in active markets.

Level 2—Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations, in which all significant inputs are observable in active markets.

Level 3—Valuations derived from valuation techniques, in which one or more significant inputs are unobservable.

The fair values of the Company’s financial assets and liabilities by level in the fair value hierarchy as of June 28, 2014 and December 31, 2013 were as follows:

June 28, 2014	Level 2
Assets:	
Foreign exchange derivative contracts	$1
Available-for-sale securities:	
Government, agency, and government-sponsored enterprise obligations	15
Corporate bonds	8
Mutual funds	11
Liabilities:	
Foreign exchange derivative contracts	$3
Interest agreement derivative contracts	3

December 31, 2013	Level 1	Level 2	Total
Assets:			
Foreign exchange derivative contracts	$—	$4	$4
Available-for-sale securities:			
Government, agency, and government-sponsored enterprise obligations	—	15	15
Corporate bonds	—	7	7
Mutual funds	—	11	11
Common stock and equivalents	2	—	2
Liabilities:			
Foreign exchange derivative contracts	$—	$2	$2
Interest agreement derivative contracts	—	3	3

The Company had no Level 3 holdings as of June 28, 2014 or December 31, 2013.

At June 28, 2014 and December 31, 2013, the Company had $1.8 billion and $2.1 billion, respectively, of investments in money market mutual funds (Level 2) classified as Cash and cash equivalents in its condensed consolidated balance sheets. The money market funds had quoted market prices that are equivalent to par.

Using quoted market prices and market interest rates, the Company determined that the fair value of long-term debt at June 28, 2014 was $2.6 billion (Level 2), as compared to the instruments' face value of $2.5 billion. Since considerable judgment is required in interpreting market information, the fair value of the long-term debt is not necessarily indicative of the amount which could be realized in a current market exchange.

All other financial instruments are carried at cost, which is not materially different from the instruments’ fair values.

10. Long-term Customer Financing and Sales of Receivables

Long-term Customer Financing

Long-term customer financing receivables consist of trade receivables with payment terms greater than twelve months, long-term loans and lease receivables under sales-type leases. Long-term customer financing receivables consist of the following:

	June 28, 2014	December 31, 2013
Long-term receivables	$37	$27
Less current portion	(19)	(26)
Non-current long-term receivables, net	$18	$1

The current portion of long-term receivables is included in Accounts receivable, net and the non-current portion of long-term receivables is included in Other assets in the Company's condensed consolidated balance sheets.

Certain purchasers of the Company's products and services may request that the Company provide long-term financing (defined as financing with a term of greater than one year) in connection with the sale of products and services. These requests may include all or a portion of the purchase price of the products and services. The Company's obligation to provide long-term financing may be conditioned on the issuance of a letter of credit in favor of the Company by a reputable bank to support the purchaser's credit or a pre-existing commitment from a reputable bank to purchase the long-term receivables from the Company. The Company had outstanding commitments to provide long-term financing to third parties totaling $166 million at June 28, 2014, compared to $50 million at December 31, 2013.

Sales of Receivables

The following table summarizes the proceeds received from sales of accounts receivable and long-term receivables for the three and six months ended June 28, 2014 and June 29, 2013:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Cumulative annual proceeds received from sales:				
Accounts receivable sales proceeds	$26	$2	$33	$3
Long-term receivables sales proceeds	52	25	52	52
Total proceeds from receivable sales	$78	$27	$85	$55

At June 28, 2014, the Company had retained servicing obligations for $460 million of long-term receivables, compared to $434 million of long-term receivables at December 31, 2013. Servicing obligations are limited to collection activities related to the sales of accounts receivables and long-term receivables.

Credit Quality of Customer Financing Receivables and Allowance for Credit Losses

An aging analysis of financing receivables at June 28, 2014 and December 31, 2013 is as follows:

June 28, 2014	Total Long-term Receivable	Current Billed Due	Past Due Under 90 Days	Past Due Over 90 Days
Municipal leases secured tax exempt	$1	$ —	$—	$—
Commercial loans and leases secured	36	1	2	12
Total gross long-term receivables, including current portion	$37	$ 1	$2	$12
December 31, 2013	**Total Long-term Receivable**	**Current Billed Due**	**Past Due Under 90 Days**	**Past Due Over 90 Days**
Municipal leases secured tax exempt	$1	$ —	$—	$—
Commercial loans and leases secured	26	10	2	10
Total gross long-term receivables, including current portion	$27	$ 10	$2	$10

The Company had a total of $12 million of financing receivables past due over 90 days as of June 28, 2014 in relation to two loans. The Company has not accrued interest on these loans, which are adequately reserved, during the three and six months ended June 28, 2014.

11. Commitments and Contingencies

Legal Matters

The Company is a defendant in various suits, claims and investigations that arise in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, liquidity or results of operations. However, an unfavorable resolution could have a material adverse effect on the Company's results of operations in the periods in which the matters are ultimately resolved.

Other Indemnifications
The Company is a party to a variety of agreements pursuant to which it is obligated to indemnify the other party with respect to certain matters. In indemnification cases, payment by the Company is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract, which procedures typically allow the Company to challenge the other party's claims. In some instances, the Company may have recourse against third parties for certain payments made by the Company.
In addition, the Company may provide indemnifications for losses that result from the breach of general warranties contained in certain commercial and intellectual property agreements. Historically, the Company has not made significant payments under these agreements.
Also, pursuant to the Master Separation and Distribution Agreement and certain other agreements entered into in connection with the separating of Motorola Mobility Holdings, Inc. ("Motorola Mobility"), Motorola Mobility agreed to indemnify the Company for certain liabilities, and the Company agreed to indemnify Motorola Mobility for certain liabilities, in each case for uncapped amounts.

12. Segment Information
As a result of the reclassification of the Enterprise business to discontinued operations beginning in the second quarter of 2014, the Company has the following two segments:
Products: The Products segment offers an extensive portfolio of network infrastructure, devices, system software and applications for the public safety, hospitality, education, manufacturing, transportation, utilities, mining and retail industries, including: (i) “ASTRO” products, which meet the Association of Public Safety Communications Officials Project 25 standard, (ii) “Dimetra” products which meet the European Telecommunications Standards Institute Terrestrial Trunked Radio “TETRA” standard, (iii) Professional and Commercial Radio (“PCR”) products, (iv) integrated digital enhanced network (“iDEN”) products, and (v) broadband technology products, such as Long-Term Evolution (“LTE”). In addition, the Products segment offers smart public safety solutions including computer-aided dispatch, records systems, data management systems and Real Time Crime Center solutions.
Services: The Services segment has a full breadth of service offerings for both public safety and private communication networks including: (i) Integration services, (ii) Lifecycle Management and Support services, (iii) Managed services, and (iv) Solutions services. Integration services includes implementation, optimization, and integration of networks, devices, and applications. Lifecycle Management and Support services includes lifecycle planning, upgrades, call center, network monitoring, and repair services. Managed services includes managing customer networks at defined services levels. Solutions services includes integration of hardware and software to meet customer needs.
The following table summarizes the Net sales by segment:

	Three Months Ended		Six Months Ended	
	June 28, 2014	June 29, 2013	June 28, 2014	June 29, 2013
Products	$887	$986	$1,640	$1,899
Services	506	511	982	994
	$1,393			