Motorola Solutions, Inc.
Form 10-Q
July 28, 2011

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 July 2, 2011

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

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 ¨	Smaller reporting company ¨
		(Do not check if a 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 July 2, 2011:

Class	Number of Shares
Common Stock; $.01 Par Value	343,136,511

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Part I Financial Information

Motorola Solutions, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended		Six Months Ended	
(In millions, except per share amounts)	***July 2, 2011***	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Net sales from products	**$1,524**	$1,438	**$2,948**	$2,729
Net sales from services	**531**	498	**991**	947
Net sales	**2,055**	1,936	**3,939**	3,676
Costs of product sales	**685**	656	**1,341**	1,250
Costs of services sales	**331**	315	**617**	608
Costs of sales	**1,016**	971	**1,958**	1,858
Gross margin	**1,039**	965	**1,981**	1,818
Selling, general and administrative expenses	**492**	471	**960**	925
Research and development expenditures	**271**	269	**520**	527
Other charges	**106**	64	**161**	85
Operating earnings	**170**	161	**340**	281
Other income (expense):				
Interest expense, net	**(21)**	(35)	**(41)**	(68)
Gain on sales of investments and businesses, net	**1**	33	**19**	40
Other	**(77)**	(30)	**(72)**	(15)
Total other income (expense)	**(97)**	(32)	**(94)**	(43)
Earnings from continuing operations before income taxes	**73**	129	**246**	238
Income tax expense (benefit)	**17**	122	**(169)**	135
Earnings from continuing operations	**56**	7	**415**	103
Earnings from discontinued operations, net of tax	**291**	159	**423**	131
Net earnings	**347**	166	**838**	234
Less: Earnings (loss) attributable to noncontrolling interests	**(2)**	4	**(8)**	3
Net earnings attributable to Motorola Solutions, Inc.	**$349**	$162	**$846**	$231
Amounts attributable to Motorola Solutions, Inc. common stockholders:				
Earnings from continuing operations, net of tax	**$58**	$3	**$423**	$100
Earnings from discontinued operations, net of tax	**291**	159	**423**	131
Net earnings	**$349**	$162	**$846**	$231
Earnings per common share:				
Basic:				
Continuing operations	**$0.17**	$0.01	**$1.24**	$0.30
Discontinued operations	**0.85**	0.48	**1.25**	0.40
	$1.02	$0.49	**$2.49**	$0.70
Diluted:				
Continuing operations	**$0.17**	$0.01	**$1.22**	$0.30
Discontinued operations	**0.83**	0.47	**1.22**	0.39
	$1.00	$0.48	**$2.44**	$0.69
Weighted average common shares outstanding:				
Basic	**341.2**	332.7	**339.3**	331.7
Diluted	**348.5**	337.9	**346.3**	336.1

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

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Motorola Solutions, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited)

(In millions, except par value amounts)	***July 2, 2011***	*December 31, 2010*
ASSETS		
Cash and cash equivalents	**$2,203**	$4,208
Sigma Fund and short-term investments	**4,424**	4,655
Accounts receivable, net	**1,546**	1,547
Inventories, net	**522**	521
Deferred income taxes	**729**	871
Other current assets	**729**	748
Current assets held for disposition	**116**	4,604
Total current assets	**10,269**	17,154
Property, plant and equipment, net	**899**	922
Sigma Fund	**28**	70
Investments	**175**	172
Deferred income taxes	**2,063**	1,920
Goodwill	**1,429**	1,429
Other assets	**641**	734
Non-current assets held for disposition	**93**	3,176
Total assets	**$15,597**	$25,577
LIABILITIES AND STOCKHOLDERS EQUITY		
Notes payable and current portion of long-term debt	**$606**	$605
Accounts payable	**625**	731
Accrued liabilities	**2,790**	2,574
Current liabilities held for disposition	**110**	4,800
Total current liabilities	**4,131**	8,710
Long-term debt	**1,548**	2,098
Other liabilities	**3,015**	3,045
Non-current liabilities held for disposition	**79**	737
Stockholders Equity		
Preferred stock, $100 par value		
Common stock, $.01 par value:	**3**	3
Authorized shares: 600.0		
Issued shares: 7/02/11 344.9; 12/31/10 337.2		
Outstanding shares: 7/02/11 343.1; 12/31/10 336.3		
Additional paid-in capital	**8,030**	8,644
Retained earnings	**846**	4,460
Accumulated other comprehensive loss	**(2,140)**	(2,222)
Total Motorola Solutions, Inc. stockholders equity	**6,739**	10,885
Noncontrolling interests	**85**	102
Total stockholders equity	**6,824**	10,987

Total liabilities and stockholders equity	**$15,597**	$25,577

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

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Motorola Solutions, Inc. and Subsidiaries

Condensed Consolidated Statement of Stockholders Equity

(Unaudited)

			Motorola Solutions, Inc. Stockholders						
			Accumulated Other Comprehensive Income (Loss)						
(In millions)	*Shares*	*Common Stock and Additional Paid-in Capital*	*Fair Value Adjustment to Available for Sale Securities, Net of Tax*	*Foreign Currency Translation Adjustments, Net of Tax*	*Retirement Benefits Adjustments, Net of Tax*	*Other Items, Net of Tax*	*Retained Earnings*	*Noncontrolling Interests*	*Comprehensive Earnings*
Balances at December 31, 2010	**337.2**	**$8,647**	**$12**	**$(126)**	**$(2,108)**	**$**	**$4,460**	**$102**	
Net earnings (loss)							846	(8)	$838
Net unrealized gain on securities, net of tax of $6			9						9
Foreign currency translation adjustments, net of tax of $(5)				83					83
Amortization of retirement benefit adjustments, net of tax of $36					65				65
Remeasurement of retirement benefits, net of tax of $9					(77)				(77)
Issuance of common stock and stock options exercised	7.7	92							
Excess tax benefit from stock-based compensation		36							
Share-based compensation expense		91							
Net gain on derivative instruments, net of tax of $0						2			2
Distribution of Motorola Mobility		(831)	(9)	1	8		(4,460)		
Dividends paid to noncontrolling interest on subsidiary common stock								(8)	
Purchase of noncontrolling interest in subsidiary								(1)	
Reclassification of share-based awards from equity to liability		(2)							
Balances at July 2, 2011	**344.9**	**$8,033**	**$12**	**$(42)**	**$(2,112)**	**$2**	**$846**	**$85**	**$920**

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

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Motorola Solutions, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended	
(In millions)	***July 2, 2011***	*July 3, 2010*
Operating		
Net earnings attributable to Motorola Solutions, Inc.	**$846**	$231
Earnings (loss) attributable to noncontrolling interests	**(8)**	3
Net earnings	**838**	234
Earnings from discontinued operations, net of tax	**423**	131
Earnings from continuing operations	**415**	103
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	**181**	172
Non-cash other charges (income)	**45**	(37)
Share-based compensation expense	**78**	69
Gain on sales of investments and businesses, net	**(19)**	(40)
Loss from the extinguishment of long-term debt	**81**	12
Deferred income taxes	**(10)**	255
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	**88**	(32)
Inventories	**(12)**	(36)
Other current assets	**9**	10
Accounts payable and accrued liabilities	**(338)**	(144)
Other assets and liabilities	**(185)**	(170)
Net cash provided by operating activities from continuing operations	**333**	162
Investing		
Acquisitions and investments, net	**(2)**	(6)
Proceeds from sales of investments and businesses, net	**1,078**	239
Capital expenditures	**(60)**	(74)
Proceeds from sales of property, plant and equipment	**4**	27
Proceeds from sales (purchases) of Sigma Fund investments, net	**266**	(248)
Proceeds from sales (purchases) of short-term investments, net	**6**	(23)
Net cash provided by (used for) investing activities from continuing operations	**1,292**	(85)
Financing		
Repayment of short-term borrowings, net		(5)
Repayment of debt	**(616)**	(481)
Contribution to Motorola Mobility	**(3,200)**	
Issuance of common stock	**128**	68
Distribution from discontinued operations	**75**	531
Net cash provided by (used for) financing activities from continuing operations	**(3,613)**	113
Discontinued Operations		
Net cash provided by operating activities from discontinued operations	**38**	567
Net cash used for investing activities from discontinued operations	**(8)**	(88)
Net cash used for financing activities from discontinued operations	**(75)**	(531)
Effect of exchange rate changes on cash and cash equivalents from discontinued operations	**45**	52
Net cash provided by (used for) discontinued operations		
Effect of exchange rate changes on cash and cash equivalents from continuing operations	**(17)**	(166)
Net increase (decrease) in cash and cash equivalents	**(2,005)**	24

Cash and cash equivalents, beginning of period	**4,208**	2,869
Cash and cash equivalents, end of period	**$2,203**	$2,893
Cash Flow Information		
Cash paid during the period for:		
Interest, net	**$105**	$130
Income taxes, net of refunds	**39**	34

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

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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 July 2, 2011 and for the three and six months ended July 2, 2011 and July 3, 2010, include, in the opinion of management, all adjustments (consisting of normal recurring adjustments and reclassifications) necessary to present fairly the consolidated financial position, results of operations and 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, 2010, as well as the Company s Form 8-K filed on May 12, 2011 to reflect: (i) the revised presentation of the Company s segments as a result of the realignment of its operations into two segments: Government and Enterprise, and (ii) the reclassification of the historical financial results of Motorola Mobility Holdings, Inc. (Motorola Mobility) as discontinued operations. The results of operations for the three and six months ended July 2, 2011 are not necessarily indicative of the operating results to be expected for the full year. Certain amounts in prior period financial statements and related notes have been reclassified to conform to the 2011 presentation.

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.

Changes in Presentation

Networks Transaction

On July 19, 2010, the Company announced an agreement to sell certain assets and liabilities of its Networks business to Nokia Siemens Networks B.V. (NSN) (the Transaction). On April 12, 2011, the Company announced certain amendments to the Transaction. On April 29, 2011, the Company completed the Transaction, as amended. Based on the terms and conditions of the amended sale agreement, certain assets including $150 million of accounts receivable and the Company s iDEN infrastructure business were excluded from the Transaction. During the three months ended July 2, 2011, the Company recorded a pre-tax gain related to the completion of the Transaction of $488 million, net of closing costs and an expected purchase price adjustment, to Gains on sales of investments and business, net, within the discontinued operations in the Company s condensed consolidated statements of operations. As of July 2, 2011, regulatory approvals required to complete the Transaction in certain countries are still in-process and are expected to be completed in the second half of 2011. Until these approvals are received, the Company will maintain the assets and liabilities associated with these countries in assets and liabilities held for disposition in the Company s condensed consolidated balance sheets.

The results of operations of the portions of the Networks business included in the Transaction are reported as discontinued operations for all periods presented. Certain Corporate and general costs which have historically been allocated to the Networks business remain with the Company after the sale of the Networks business.

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Motorola Mobility Distribution

On January 4, 2011, the distribution by the Company of all the common stock of Motorola Mobility was completed (the Distribution). The stockholders of record as of the close of business on December 21, 2010 received one (1) share of Motorola Mobility common stock for each eight (8) shares of the Company s common stock held as of the record date. The Distribution was structured to be tax-free to Motorola Solutions and its stockholders for U.S. tax purposes (other than with respect to any cash received in lieu of fractional shares). The historical financial results of Motorola Mobility are reflected in the Company s condensed consolidated financial statements as discontinued operations for all periods presented.

Reverse Stock Split and Name Change

On January 4, 2011, immediately following the Distribution, the Company completed a 1-for-7 reverse stock split (the Reverse Stock Split) and changed its name to Motorola Solutions, Inc. All consolidated per share information presented gives effect to the Reverse Stock Split.

Change in Segmentation

Following the Distribution, the Company reports financial results for the following two segments:

Government: Our Government segment includes sales of two-way radios and public safety systems. Service revenues included in the Government segment are primarily those associated with the design, installation, maintenance and optimization of equipment for public safety networks.

Enterprise: Our Enterprise segment includes sales of enterprise mobile computing devices, scanning devices, wireless broadband systems, RFID data capture solutions and iDEN infrastructure. Service revenues included in the Enterprise segment are primarily maintenance contracts associated with the above products.

Recent Accounting Pronouncements

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* (ASU 2011-04). ASU 2011-04 expands the disclosures for fair value measurements that are estimated using significant unobservable (Level 3) inputs. This new guidance is to be applied prospectively. This guidance will be effective for the Company beginning January 1, 2012. The Company anticipates that the adoption of this standard will not materially affect its financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income,* (ASU 2011-05). ASU 2011-05 eliminates the option to report other comprehensive income and its components in the statement of changes in equity. ASU 2011-05 requires that all non-owner changes in stockholders equity be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. This new guidance is to be applied retrospectively. This guidance will be effective for the Company beginning January 1, 2012. The Company anticipates that the adoption of this standard will change the presentation of its consolidated financial statements.

2. Discontinued Operations

During the three and six months ended July 2, 2011, the activity from discontinued operations substantially relates to the operations of the Networks business. During the three and six months ended July 3, 2010, the activity from discontinued operations substantially relates to the operations of Motorola Mobility and

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the Networks business. 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 July 2, 2011 and July 3, 2010.

	Three Months Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Net sales	**$260**	$3,491	**$1,108**	$6,821
Operating earnings (loss)	**(14)**	202	**190**	158
Gains on sales of investments and businesses, net	**488**	20	**488**	21
Earnings before income taxes	**467**	217	**666**	171
Income tax expense	**176**	58	**243**	40
Earnings from discontinued operations, net of tax	**291**	159	**423**	131

At July 2, 2011, the assets and liabilities held for disposition relate to the assets and liabilities of the Networks business in the certain countries that are yet to receive regulatory approvals. At December 31, 2010, the assets and liabilities held for disposition relate to the assets and liabilities of Motorola Mobility and the Networks business. The following table displays a summary of the assets and liabilities held for disposition as of July 2, 2011 and December 31, 2010.

	July 2, 2011	*December 31, 2010*
Assets		
Accounts receivable, net	**$60**	$2,072
Inventories, net	**24**	1,040
Other current assets	**32**	1,492
Property, plant and equipment, net	**10**	1,013
Investments		145
Goodwill		1,504
Other assets	**83**	514
	$209	$7,780
Liabilities		
Accounts payable	**$27**	$2,060
Accrued liabilities	**83**	2,740
Other liabilities	**79**	737
	$189	$5,537

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3. Other Financial Data
Statement of Operations Information

Other Charges

Other charges included in Operating earnings consist of the following:

	Three Month Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Other charges:				
Amortization of intangible assets	**$50**	$50	**$100**	$101
Legal matters and settlements, net	**48**		**48**	(29)
Reorganization of business charges	**17**	14	**22**	13
Pension plan adjustments, net	**(9)**		**(9)**	
	$106	$64	**$161**	$85

Other Income (Expense)

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

	Three Month Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Interest income (expense), net:				
Interest expense	**$(40)**	$(56)	**$(74)**	$(116)
Interest income	**19**	21	**33**	48
	$(21)	$(35)	**$(41)**	$(68)
Other:				
Loss from the extinguishment of the Company s outstanding long-term debt	**$(81)**	$(12)	**$(81)**	$(12)
Investment impairments		(9)	**(3)**	(18)
Foreign currency gain (loss)	**6**	(4)	**11**	3
Gain (loss) on Sigma Fund investments		(4)		12
Other	**(2)**	(1)	**1**	
	$(77)	$(30)	**$(72)**	$(15)

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Earnings Per Common Share

The computation of basic and diluted earnings per common share attributable to Motorola Solutions, Inc. common stockholders is as follows:

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		*Net Earnings*	
Three Months Ended	***July 2, 2011***	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Basic earnings per common share:				
Earnings	**$58**	$3	**$349**	$162
Weighted average common shares outstanding	**341.2**	332.7	**341.2**	332.7
Per share amount	**$0.17**	$0.01	**$1.02**	$0.49
Diluted earnings per common share:				
Earnings	**$58**	$3	**$349**	$162
Weighted average common shares outstanding	**341.2**	332.7	**341.2**	332.7
Add effect of dilutive securities:				
Share-based awards and other	**7.3**	5.2	**7.3**	5.2
Diluted weighted average common shares outstanding	**348.5**	337.9	**348.5**	337.9
Per share amount	**$0.17**	$0.01	**$1.00**	$0.48

	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		*Net Earnings*	
Six Months Ended	***July 2, 2011***	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Basic earnings per common share:				
Earnings	**$423**	$100	**$846**	$231
Weighted average common shares outstanding	**339.3**	331.7	**339.3**	331.7
Per share amount	**$1.24**	$0.30	**$2.49**	$0.70
Diluted earnings per common share:				
Earnings	**$423**	$100	**$846**	$231
Weighted average common shares outstanding	**339.3**	331.7	**339.3**	331.7
Add effect of dilutive securities:				
Share-based awards and other	**7.0**	4.4	**7.0**	4.4
Diluted weighted average common shares outstanding	**346.3**	336.1	**346.3**	336.1
Per share amount	**$1.22**	$0.30	**$2.44**	$0.69

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 July 2, 2011, the assumed exercise of 8.0 million and 8.8 million stock options, respectively, and the assumed vesting of 0.3 million and 0.2 million restricted stock units, 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 July 3, 2010, the assumed exercise of 19.1 million and 18.9 million stock options, respectively, and the assumed vesting of 1.2 million and 0.7 million restricted stock units, respectively, were excluded because their inclusion would have been antidilutive.

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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 $2.2 billion and $4.2 billion at July 2, 2011 and December 31, 2010, respectively. Of these amounts, $63 million and $226 million, respectively, were restricted. The decrease in the Company s cash and cash equivalents from December 31, 2010 to July 2, 2011 is reflective of the Company s contribution of $3.2 billion of cash and cash equivalents to Motorola Mobility, which included $160 million of restricted cash.

Sigma Fund

The Sigma Fund consists of the following:

	July 2, 2011		*December 31, 2010*	
Fair Value	***Current***	***Non-current***	*Current*	*Non-Current*
Cash	**$1,988**	**$**	$2,355	$
Securities:				
U.S. government and agency obligations	**2,434**		2,291	
Corporate bonds		**21**		58
Asset-backed securities				1
Mortgage-backed securities		**7**		11
	$4,422	**$28**	$4,646	$70

During the three months ended July 2, 2011, the Company recorded de minimus gains on Sigma Fund investments, compared to a net loss of $4 million during the three months ended July 3, 2010, in Other income (expense) in the condensed consolidated statement of operations. During the six months ended July 2, 2011, the Company recorded de minimus losses on Sigma Fund investments, compared to gains of $12 million during the six months ended July 3, 2010, in Other income (expense) in the condensed consolidated statement of operations.

Investments

Investments consist of the following:

	Recorded Value		*Less*	
	Short-term		*Unrealized*	*Cost*
July 2, 2011	*Investments*	*Investments*	*Gains*	*Basis*
Available-for-sale securities:				
U.S. government, agency and government-sponsored enterprise obligations		17		17
Corporate bonds	2	11		13
Mortgage-backed securities		3		3
Common stock and equivalents		30	19	11
	2	61	19	44
Other securities, at cost		104		104
Equity method investments		10		10
	$2	$175	$19	$158

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December 31, 2010	*Recorded Value* *Short-term Investments*	*Investments*	*Less Unrealized Gains*	*Cost Basis*
Certificates of deposit	$7	$	$	$7
Available-for-sale securities:				
U.S. government, agency and government-sponsored enterprise obligations		17		17
Corporate bonds	2	11		13
Mortgage-backed securities		3		3
Common stock and equivalents		12	4	8
	9	43	4	48
Other securities, at cost		113		113
Equity method investments		16		16
	$9	$172	$4	$177

During the three months ended July 2, 2011, the Company recorded no investment impairment charges. During the three months ended July 3, 2010, the Company recorded investment impairment charges of $9 million, representing other-than-temporary declines in the value of the Company s investment portfolio, primarily related to common stock and equivalents and other securities recorded at cost. During the six months ended July 2, 2011 and July 3, 2010, the Company recorded investment impairment charges of $3 million and $18 million, respectively, representing other-than-temporary declines in the value of the Company s investment portfolio, primarily related to common stock and equivalents and other securities recorded at cost. Investment impairment charges are included in Other within Other income (expense) in the Company s condensed consolidated statements of operations.

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	July 2, 2011	*December 31, 2010*
Accounts receivable	**$1,596**	$1,596
Less allowance for doubtful accounts	**(50)**	(49)
	$1,546	$1,547

Inventories, Net

Inventories, net, consist of the following:

	July 2, 2011	*December 31, 2010*
Finished goods	**$398**	$386
Work-in-process and production materials	**284**	292
	682	678
Less inventory reserves	**(160)**	(157)
	$522	$521

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Other Current Assets

Other current assets consist of the following:

	July 2, 2011	December 31, 2010
Costs and earnings in excess of billings	**$314**	$291
Contract-related deferred costs	**163**	160
Tax-related refunds receivable	**105**	116
Other	**147**	181
	$729	$748

Property, Plant and Equipment, Net

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

	July 2, 2011	December 31, 2010
Land	**$70**	$71
Building	**769**	804
Machinery and equipment	**2,115**	2,094
	2,954	2,969
Less accumulated depreciation	**(2,055)**	(2,047)
	$899	$922

Depreciation expense for the three months ended July 2, 2011 and July 3, 2010 was $40 million and $35 million, respectively. Depreciation expense for the six months ended July 2, 2011 and July 3, 2010 was $81 million and $71 million, respectively.

Other Assets

Other assets consist of the following:

	July 2, 2011	December 31, 2010
Long-term receivables, net of allowances of $6 and $1	**$272**	$251
Intangible assets, net of accumulated amortization of $1,047 and $947	**146**	246
Other	**223**	237
	$641	$734

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Accrued Liabilities

Accrued liabilities consist of the following:

	July 2, 2011	December 31, 2010
Deferred revenue	**$760**	$746
Compensation	**336**	558
Distribution-related obligation	**300**	
Billings in excess of costs and earnings	**251**	226
Tax liabilities	**146**	179
Customer reserves	**112**	117
Other	**885**	748
	$2,790	$2,574

As part of the Distribution of Motorola Mobility, the Company has an obligation to fund an additional $300 million, upon receipt of cash distributions as a result of future capital reductions of an overseas subsidiary, of which $75 million was paid to Motorola Mobility on July 22, 2011.

Other Liabilities

Other liabilities consist of the following:

	July 2, 2011	December 31, 2010
Defined benefit plans, including split dollar life insurance policies	**$2,025**	$2,113
Deferred revenue	**293**	274
Postretirement health care benefit plan	**286**	277
Unrecognized tax benefits	**102**	70
Other	**309**	311
	$3,015	$3,045

Stockholders Equity

Separation of Motorola Mobility: As a result of the Distribution on January 4, 2011, certain equity balances were transferred by the Company to Motorola Mobility including: (i) $1 million in Foreign currency translation adjustments, net of tax of a de minimus amount, (ii) $9 million in Fair value adjustments to available for sale securities, net of tax of $5 million, and (iii) $8 million in Retirement benefit adjustments, net of tax of $4 million. The distribution of net assets and these equity balances were effected by way of a pro rata dividend to Motorola Solutions stockholders, which reduced retained earnings and additional paid in capital by $5.3 billion.

Share Repurchase Program: On July 28, 2011, the Company announced that its Board of Directors approved a share repurchase program that allows the Company to purchase up to $2.0 billion of its outstanding common stock through December 31, 2012, subject to market conditions. All repurchased shares are expected to be retired.

Payment of Dividends: Also on July 28, 2011, the Company announced that its Board of Directors approved the initiation of a regular quarterly cash dividend on the Company s outstanding common stock. The Board of Directors approved a cash dividend of $0.22 per share of common stock payable on October 14, 2011 to shareholders of record as of the close of business on September 15, 2011.

4. Debt and Credit Facilities

During the six months ended July 2, 2011, the Company repurchased $540 million of its outstanding long-term debt for a purchase price of $615 million, excluding approximately $6 million of accrued interest, all

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of which occurred during the three months ended July 2, 2011. The $540 million of long-term debt repurchased included principal amounts of: (i) $196 million of the $314 million then outstanding of the 6.50% Debentures due 2025, (ii) $174 million of the $210 million then outstanding of the 6.50% Debentures due 2028, and (iii) $170 million of the $225 million then outstanding of the 6.625% Senior Notes due 2037. After accelerating the amortization of debt issuance costs and debt discounts, the Company recognized a loss of approximately $81 million related to this debt tender in Other within Other income (expense) in the condensed consolidated statements of operations.

During the six months ended July 3, 2010, the Company repurchased $500 million of its outstanding long-term debt for a purchase price of $477 million, excluding approximately $5 million of accrued interest, all of which occurred during the three months ended July 3, 2010. The $500 million of long-term debt repurchased included principal amounts of: (i) $65 million of the $379 million then outstanding of the 6.50% Debentures due 2025, (ii) $75 million of the $286 million then outstanding of the 6.50% Debentures due 2028, (iii) $222 million of the $446 million then outstanding of the 6.625% Senior Notes due 2037, and (iv) $138 million of the $252 million then outstanding of the 5.22% Debentures due 2097. After accelerating the amortization of debt issuance costs and debt discounts, the Company recognized a loss of approximately $12 million related to this debt tender in Other within Other income (expense) in the condensed consolidated statements of operations.

During the first quarter of 2011, the Company terminated its $1.5 billion domestic syndicated revolving credit facility scheduled to mature December 2011 and entered into a new $1.5 billion unsecured syndicated revolving credit facility (the 2011 Motorola Solutions Credit Agreement) scheduled to mature on June 30, 2014. The 2011 Motorola Solutions Credit Agreement includes a provision pursuant to which the Company can increase the aggregate credit facility size up to a maximum of $2.0 billion by adding lenders or having existing lenders increase their commitments. The Company must comply with certain customary covenants, including maximum leverage and minimum interest coverage ratios as defined in the 2011 Motorola Solutions Credit Agreement. The Company was in compliance with its financial covenants as of July 2, 2011. The Company has no outstanding borrowings under the 2011 Motorola Solutions Credit Agreement.

5. Risk Management

Derivative Financial Instruments

Foreign Currency Risk

At July 2, 2011, the Company had outstanding foreign exchange contracts with notional amounts totaling $665 million, compared to $1.5 billion outstanding at December 31, 2010. The decrease in outstanding contracts is primarily related to the Distribution of Motorola Mobility. Management believes that these financial instruments should not subject the Company to undue risk due to foreign exchange movements because gains and losses on these contracts should generally offset losses and gains 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 July 2, 2011 and the corresponding positions as of December 31, 2010:

	Notional Amount	
Net Buy (Sell) by Currency	***July 2, 2011***	*December 31, 2010*
Chinese Renminbi	**$(424)**	$(423)
Malaysian Ringgit	**45**	64
Euro	**42**	(195)
British Pound	**24**	187
Israeli Shekel	**24**	(5)

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Interest Rate Risk

At July 2, 2011, the Company had $2.2 billion of long-term debt, including the current portion of long-term debt, 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 an outstanding interest rate agreement (Interest Agreement) relating to a Euro-denominated loan. The interest on the Euro-denominated loan is variable. The Interest Agreement changes the characteristics of interest payments from variable to fixed-rate payments. The Interest Agreement is not accounted for as a part of a hedging relationship and, accordingly, the changes in the fair value of the Interest Agreement are included in Other income (expense) in the Company s condensed consolidated statements of operations. The fair value of the Interest Agreement was in a liability position of $3 million at both July 2, 2011 and December 31, 2010.

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 July 2, 2011, all of the counterparties have investment grade credit ratings. The Company is not exposed to material credit risk with any single counterparty. As of July 2, 2011, the Company was exposed to an aggregate credit risk of approximately $3 million with all counterparties.

The following tables summarize the fair values and location in the condensed consolidated balance sheets of all derivative financial instruments held by the Company, including amounts held for disposition, at July 2, 2011 and December 31, 2010:

	Fair Values of Derivative Instruments			
	Assets		*Liabilities*	
July 2, 2011	*Fair Value*	*Balance Sheet Location*	*Fair Value*	*Balance Sheet Location*
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$2	Other assets	$	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	1	Other assets	1	Other liabilities
Interest agreement contracts		Other assets	3	Other liabilities
Total derivatives not designated as hedging instruments	1		4	
Total derivatives	$3		$4	

	Fair Values of Derivative Instruments			
	Assets		*Liabilities*	
December 31, 2010	*Fair Value*	*Balance Sheet Location*	*Fair Value*	*Balance Sheet Location*
Derivatives designated as hedging instruments:				
Foreign exchange contracts	$1	Other assets	$	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	4	Other assets	15	Other liabilities
Interest agreement contracts		Other assets	3	Other liabilities

Total derivatives not designated as hedging instruments	4	18
Total derivatives	$5	$18

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The following table summarizes the effect of derivative instruments in our condensed consolidated statements of operations, including amounts related to discontinued operations, for the three and six months ended July 2, 2011 and July 3, 2010:

Gain (Loss) on Derivative Instruments	*Three Months Ended* ***July 2, 2011***	*July 3, 2010*	*Statement of Operations Location*
Derivatives not designated as hedging instruments:			
Interest rate contracts	**$(3)**	$(4)	Other income (expense)
Foreign exchange contracts	**(8)**	22	Other income (expense)
Total derivatives not designated as hedging instruments	**$(11)**	$18	

Gain (Loss) on Derivative Instruments	*Six Months Ended* ***July 2, 2011***	*July 3, 2010*	*Statement of Operations Location*
Derivatives not designated as hedging instruments:			
Interest rate contracts	**$(5)**	$(8)	Other income (expense)
Foreign exchange contracts	**(15)**	31	Other income (expense)
Total derivatives not designated as hedging instruments	**$(20)**	$23	

The following table summarizes the gains and losses recognized in the condensed consolidated financial statements, including amounts related to discontinued operations, for the three and six months ended July 2, 2011 and July 3, 2010:

Foreign Exchange Contracts	*Three Months Ended* ***July 2, 2011***	*July 3, 2010*	*Financial Statement Location*
Derivatives in cash flow hedging relationships:			
Loss recognized in Accumulated other comprehensive loss (effective portion)	**$**	$(6)	Accumulated other comprehensive loss
Gain reclassified from Accumulated other comprehensive loss into Net earnings (effective portion)	**2**	3	Cost of sales/Sales

Foreign Exchange Contracts	*Six Months Ended* ***July 2, 2011***	*July 3, 2010*	*Financial Statement Location*
Derivatives in cash flow hedging relationships:			
Gain (loss) recognized in Accumulated other comprehensive loss (effective portion)	**$3**	$(3)	Accumulated other comprehensive loss
Gain reclassified from Accumulated other comprehensive loss into Net earnings (effective portion)	**2**	3	Cost of sales/Sales

Fair Value of Financial Instruments

The Company s financial instruments include cash equivalents, Sigma Fund investments, short-term investments, accounts receivable, long-term receivables, accounts payable, accrued liabilities, derivative financial instruments and other financing commitments. The Company s Sigma Fund, available-for-sale investment portfolios and derivative financial instruments are recorded in the Company s condensed consolidated balance sheets at fair value. All other financial instruments, with the exception of long-term debt, are carried at cost, which is not materially different than the instruments fair values.

Using quoted market prices and market interest rates, the Company determined that the fair value of long-term debt at July 2, 2011 was $2.3 billion, compared to a face value of $2.2 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.

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6. Income Taxes

At July 2, 2011 and December 31, 2010, the Company had valuation allowances of $283 million and $502 million, respectively, including $258 million and $187 million, respectively, relating to deferred tax assets for non-U.S. subsidiaries. During the three months ended April 2, 2011, the Company reassessed its valuation allowance requirements taking into consideration the Distribution of Motorola Mobility. The Company evaluated all available evidence in its analysis, including the historical and projected pre-tax profits generated by the Motorola Solutions U.S. operations. The Company also considered tax planning strategies that are prudent and can be reasonably implemented. As a result, the Company recorded a $244 million tax benefit related to the reversal of a significant portion of the valuation allowance established on U.S. deferred tax assets. During the three months ended July 2, 2011, the U.S. valuation allowance was reduced by $34 million for deferred tax assets related to future capital losses that the Company expects to utilize due to the capital gain realized on the disposition of the Networks business. The U.S. valuation allowance as of July 2, 2011 relates primarily to state tax carryforwards. The valuation allowance relating to deferred tax assets of non-U.S. subsidiaries was adjusted for current year activity, exchange rate variances and a $34 million increase for loss carryforwards the Company expects to expire unutilized. The Company believes the remaining deferred tax assets are more-likely-than-not to be realized based on estimates of future taxable income and the implementation of tax planning strategies.

The Company had unrecognized tax benefits of $233 million and $198 million, at July 2, 2011 and December 31, 2010, respectively, of which approximately $175 million and $20 million, respectively, if recognized, would affect the effective tax rate, net of resulting changes to valuation allowances.

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 12 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 $125 million tax benefit, with cash payments in the range of $0 to $100 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 results of operations in the periods in which the matters are ultimately resolved.

7. Retirement Benefits

Pension Benefit Plans

The net periodic pension costs for the U.S. Regular Pension Plan, Officers Plan, the Motorola Supplemental Pension Plan (MSPP) and Non-U.S. plans were as follows:

		July 2, 2011			*July 3, 2010*	
Three Months Ended	***U.S. Regular Pension***	***Officers and MSPP***	***Non U.S.***	*U.S. Regular Pension*	*Officers and MSPP*	*Non U.S.*
Service cost	**$**	**$**	**$8**	$	$	$6
Interest cost	**83**		**31**	85	1	21
Expected return on plan assets	**(96)**		**(35)**	(94)		(20)
Amortization of:						
Unrecognized net loss	**46**	**1**	**5**	36		4
Unrecognized prior service cost			**(5)**			(1)
Settlement/curtailment loss		**3**	**(9)**		1	
Net periodic pension cost	**$33**	**$4**	**$(5)**	$27	$2	$10

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Six Months Ended	***July 2, 2011*** U.S. Regular Pension	***July 2, 2011*** Officers and MSPP	***July 2, 2011*** Non U.S.	*July 3, 2010* U.S. Regular Pension	*July 3, 2010* Officers and MSPP	*July 3, 2010* Non U.S.
Service cost	**$**	**$**	**$14**	$	$	$13
Interest cost	**170**	**1**	**49**	171	1	49
Expected return on plan assets	**(194)**		**(55)**	(189)		(48)
Amortization of:						
Unrecognized net loss	**93**	**2**	**8**	74	1	10
Unrecognized prior service cost			**(7)**			(2)
Settlement/curtailment loss		**4**	**(9)**		2	
Net periodic pension cost	**$69**	**$7**	**$**	$56	$4	$22

During the six months ended July 2, 2011, contributions of $23 million were made to the Company s Non-U.S. plans, $6 million to its Officers plan and $110 million to the Company s Regular Pension Plan.

During the three months ended July 2, 2011, the Company recognized a curtailment gain in its United Kingdom defined benefit plan, offset by a settlement loss in its Japan defined benefit plan, due to the Networks Transaction. As a result, the Company recorded a net gain of $9 million to Other charges in the Company s condensed consolidated statements of operations.

Postretirement Health Care Benefit Plans

Net postretirement health care expenses consist of the following:

	Three Months Ended ***July 2, 2011***	*Three Months Ended* *July 3, 2010*	*Six Months Ended* ***July 3, 2010***	*Six Months Ended* *July 3, 2010*
Service cost	**$1**	$2	**$2**	$3
Interest cost	**6**	6	**12**	13
Expected return on plan assets	**(4)**	(4)	**(8)**	(8)
Amortization of:				
Unrecognized net loss	**3**	3	**6**	5
Unrecognized prior service cost		(1)		(1)
Net postretirement health care expense	**$6**	$6	**$12**	$12

The Company made no contributions to its postretirement healthcare fund during the three and six months ended July 2, 2011.

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8. Share-Based Compensation Plans

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

	Three Months Ended		*Six Months Ended*	
	July 2, 2011	*July 3, 2010*	***July 2, 2011***	*July 3, 2010*
Share-based compensation expense included in:				
Costs of sales	**$5**	$5	**$8**	$9
Selling, general and administrative expenses	**25**	20	**54**	40
Research and development expenditures	**9**	11	**16**	20
Share-based compensation expense included in Operating earnings	**39**	36	**78**	69
Tax benefit	**13**	11	**25**	21
Share-based compensation expense, net of tax	**$26**	$25	**$53**	$48
Decrease in basic earnings per share	**$(0.08)**	$(0.08)	**$(0.16)**	$(0.15)
Decrease in diluted earning per share	**$(0.08)**	$(0.08)	**$(0.15)**	$(0.14)
Share-based compensation expense in discontinued operations	**$5**	$40	**$13**	$79

For the three months ended July 2, 2011, the Company granted 4.4 million and 0.5 million RSUs and stock options, respectively. The total compensation expense, net of estimated forfeitures, for these RSUs and stock options was $161 million and $6 million, respectively. For the six months ended July 2, 2011, the Company granted 4.9 million, 3.1 million, and 0.1 million RSUs, stock options and shares of restricted stock, respectively. The total compensation expense, net of estimated forfeitures, for these RSUs, stock options and shares of restricted stock was $180 million, $35 million and $4 million, respectively. The expense will be recognized over a weighted average vesting period of 3 years.

Following the completion of the Distribution on January 4, 2011, 3.8 million unvested RSUs and 8.0 million stock options held by the employees of Motorola Mobility were cancelled.

All RSUs and stock options remaining with Motorola Solutions after the Distribution were adjusted to reflect the Distribution and the Reverse Stock Split. The number of shares covered by, and the exercise price of, all vested and unvested stock options was adjusted to reflect the change in the Company s stock price immediately following the Distribution and Reverse Stock Split by:

Multiplying the number of shares subject to each stock option grant by .238089 (the Motorola Adjustment Factor) and rounding down to the next whole share; and

Dividing the exercise price per share for each such stock option grant by the Motorola Adjustment Factor and rounding up to the penny.

The number of RSUs immediately following the Distribution and Reverse Stock Split was calculated by multiplying the number of shares subject to each such grant by the Motorola Adjustment Factor and rounding down to the next whole share.

In April 2011, the vesting terms of certain awards, granted to Networks employees, were modified to allow for pro rata vesting. These awards were within a few days of vesting at the time of the closing of the sale. This modification resulted in the vesting of 0.3 million RSUs and a de minimus amount of options which would not have otherwise vested, resulting in an additional compensation expense of $5.0 million for the three and six months ended July 2, 2011. Upon the completion of the Networks Transaction on April 29, 2011, approximately 1.3 million unvested RSUs and 0.2 million unvested stock options were cancelled.

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9. Fair Value Measurements

The Company holds certain fixed income securities, equity securities and derivatives, which must be measured using the fair value hierarchy and related valuation methodologies. The 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 prescribed 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 July 2, 2011 and December 31, 2010 were as follows:

July 2, 2011	*Level 1*	*Level 2*	*Level 3*	*Total*
Assets:				
Sigma Fund securities:				
U.S. government, agency and government-sponsored enterprise obligations	$	$2,434	$	$2,434
Corporate bonds			21	