Motorola Solutions, Inc.
Form 10-Q/A
May 28, 2013

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

Form 10-Q/A
(Amendment No. 1)

(Mark One)

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

For the period ended March 30, 2013

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	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 March 30, 2013:

Class	Number of Shares
Common Stock; $.01 Par Value	271,657,794

EXPLANATORY NOTE

Motorola Solutions, Inc. (the "Company") is filing this Amendment No. 1 to its Form 10-Q for the quarter ended March 30, 2013, originally filed with the Securities and Exchange Commission on April 24, 2013. This Amendment is being filed for the purpose of correcting the title of the report subject to the certification in each of the certifications filed as Exhibits 31.1, 31.2, 32.1 and 32.2 to the original periodic report and a typographical error contained both in Item 6 and in the exhibit index. In accordance with Compliance and Disclosure Interpretations published by the SEC Staff, the entire periodic report is included in this Amendment No. 1. Other than the typographical errors described above, no other statement or amount has been changed from those presented in the Form 10-Q for the quarter ended March 30, 2013 originally filed by the Company on April 24, 2013.

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

(In millions, except per share amounts)	Three Months Ended March 30, 2013	Three Months Ended March 31, 2012
Net sales from products	$1,381	$1,444
Net sales from services	592	512
Net sales	1,973	1,956
Costs of product sales	651	658
Costs of service sales	367	325
Costs of sales	1,018	983
Gross margin	955	973
Selling, general and administrative expenses	460	472
Research and development expenditures	262	254
Other charges	17	15
Operating earnings	216	232
Other income (expense):		
Interest expense, net	(25)	(14)
Gains on sales of investments and businesses, net	7	17
Other	7	9
Total other income (expense)	(11)	12
Earnings from continuing operations before income taxes	205	244
Income tax expense	13	85
Earnings from continuing operations	192	159
Loss from discontinued operations, net of tax	—	(2)
Net earnings attributable to Motorola Solutions, Inc.	$192	$157
Amounts attributable to Motorola Solutions, Inc. common stockholders:		
Earnings from continuing operations, net of tax	$192	$159
Loss from discontinued operations, net of tax	—	(2)
Net earnings	$192	$157
Earnings (loss) per common share:		
Basic:		
Continuing operations	$0.70	$0.51
Discontinued operations	—	(0.01)
	$0.70	$0.50
Diluted:		
Continuing operations	$0.68	$0.50
Discontinued operations	—	(0.01)
	$0.68	$0.49
Weighted average common shares outstanding:		
Basic	274.5	311.3
Diluted	280.7	317.7
Dividends declared per share	$0.26	0.22

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

1

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

(In millions)	Three Months Ended March 30, 2013	March 31, 2012
Net earnings	$192	$157
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of $9 and $26	19	49
Foreign currency translation adjustment, net of tax of $(1) and $(4)	(37)	(4)
Net gain (loss) on derivative hedging instruments	(1)	4
Total other comprehensive income (loss)	(19)	49
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	$173	$206

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

2

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

(In millions, except par value amounts)	March 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$1,470	$1,468
Sigma Fund and short-term investments	2,248	2,135
Accounts receivable, net	1,644	1,881
Inventories, net	515	513
Deferred income taxes	621	604
Other current assets	868	800
Total current assets	7,366	7,401
Property, plant and equipment, net	825	839
Investments	148	144
Deferred income taxes	2,422	2,416
Goodwill	1,505	1,510
Other assets	331	369
Total assets	$12,597	$12,679
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	$4	$4
Accounts payable	593	705
Accrued liabilities	2,292	2,626
Total current liabilities	2,889	3,335
Long-term debt	2,450	1,859
Other liabilities	4,136	4,195
Stockholders' Equity		
Preferred stock, $100 par value	—	—
Common stock, $.01 par value:	3	3
Authorized shares: 600.0		
Issued shares: 3/30/13—272.9; 12/31/12—277.3		
Outstanding shares: 3/30/13—271.7; 12/31/12—276.1		
Additional paid-in capital	4,667	4,937
Retained earnings	1,746	1,625
Accumulated other comprehensive loss	(3,319)	(3,300)
Total Motorola Solutions, Inc. stockholders' equity	3,097	3,265
Noncontrolling interests	25	25
Total stockholders' equity	3,122	3,290
Total liabilities and stockholders' equity	$12,597	$12,679

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), Net of Tax	Retained Earnings	Noncontrolling Interests
Balance at December 31, 2012	277.3	$4,940	$ (3,300)	$1,625	$ 25
Net earnings				192	—
Foreign currency translation adjustments, net of tax of $(1)			(37)		
Amortization of retirement benefit adjustments, net of tax of $9			19		
Issuance of common stock and stock options exercised	1.5	33			
Share repurchase program	(5.9)	(357)			
Excess tax benefit from share-based compensation		9			
Share-based compensation expense		45			
Net loss on derivative hedging instruments			(1)		
Dividends declared				(71)	
Balance at March 30, 2013	272.9	$4,670	$ (3,319)	$1,746	$ 25

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

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

(In millions)	Three Months Ended March 30, 2013	March 31, 2012
Operating		
Net earnings attributable to Motorola Solutions, Inc.	$192	$157
Loss from discontinued operations, net of tax	—	(2)
Earnings from continuing operations	192	159
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	52	53
Non-cash other expense (income)	(1)	1
Share-based compensation expense	45	43
Gains on sales of investments and businesses, net	(7)	(17)
Deferred income taxes	(11)	27
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	200	141
Inventories	(5)	9
Other current assets	(75)	(100)
Accounts payable and accrued liabilities	(417)	(249)
Other assets and liabilities	(4)	2
Net cash provided by (used for) operating activities from continuing operations	(31)	69
Investing		
Acquisitions and investments, net	(4)	92
Proceeds from (used for) sales of investments and businesses, net	19	(54)
Capital expenditures	(46)	(49)
Proceeds from sales (purchases) of Sigma Fund and short term investments, net	(113)	1,163
Net cash provided by (used for) investing activities from continuing operations	(144)	1,152
Financing		
Repayment of debt	(1)	(1)
Net proceeds from issuance of debt	593	—
Issuance of common stock	40	30
Purchase of common stock	(357)	(1,365)
Excess tax benefits from share-based compensation	9	6
Payments of dividends	(72)	(70)
Distribution to discontinued operations	—	(11)
Net cash provided by (used for) financing activities from continuing operations	212	(1,411)
Discontinued Operations		
Net cash provided by operating activities from discontinued operations	—	2
Net cash provided by financing activities from discontinued operations	—	11
Effect of exchange rate changes on cash and cash equivalents from discontinued operations	—	(13)
Net cash provided by (used for) discontinued operations	—	—
Effect of exchange rate changes on cash and cash equivalents from continuing operations	(35)	29
Net increase (decrease) in cash and cash equivalents	2	(161)
Cash and cash equivalents, beginning of period	1,468	1,881
Cash and cash equivalents, end of period	$1,470	$1,720

Supplemental Cash Flow Information		
Cash paid during the period for:		
Interest, net	$6	$8
Income and withholding taxes, net of refunds	64	38

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

5

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 March 30, 2013 and for the three months ended March 30, 2013 and March 31, 2012, 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 stockholder's 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, 2012. The results of operations for the three months ended March 30, 2013 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 February 2013, the Financing Accounting Standards Board issued Accounting Standards Update No. 2013-04, “Obligations Resulting from Joint and Several Liability Arrangements for which the Total Amount of the Obligation Is Fixed at the Reporting Date.” The standard addresses the recognition, measurement, and disclosure of certain obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, including debt arrangements, other contractual obligations, and settled litigation and judicial rulings. The new guidance is to be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the update's scope that exist within our statement of financial position at the beginning of the year of adoption. This guidance will be effective for the Company beginning January 1, 2014. The Company anticipates that the adoption of this standard will not have a material impact on its consolidated financial statements and footnote disclosures.

2. Discontinued Operations

On January 1, 2012, the Company completed a series of transactions which resulted in exiting the amateur, marine and airband radio businesses. The operating results of the amateur, marine and airband radio businesses, formerly included as part of the Government segment, are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented.

During the three months ended March 30, 2013 the Company had no activity in the condensed consolidated statements of operations for discontinued operations. The following table displays summarized activity in the Company's condensed consolidated statements of operations for discontinued operations during the three months ended March 31, 2012.

	Three Months Ended March 31, 2012	
Net sales	$8	
Operating earnings	1	
Loss on sales of investments and businesses, net	(7	)
Loss before income taxes	(2	)
Loss from discontinued operations, net of tax	(2	)

3. Other Financial Data

Statement of Operations Information

Other Charges

Other charges included in Operating earnings consist of the following:

	Three Months Ended	
	March 30, 2013	March 31, 2012
Other charges:		
Amortization of intangible assets	$6	$6
Reorganization of business charges	11	9
	$17	$15

Other Income (Expense)

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

	Three Months Ended	
	March 30, 2013	March 31, 2012
Interest income (expense), net:		
Interest expense	$(30)	$(25)
Interest income	5	11
	$(25)	$(14)
Other:		
Investment impairments	—	(2)
Foreign currency gain	4	10
Other	3	1
	$7	$9

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	March 30, 2013	March 31, 2012	March 30, 2013	March 31, 2012
Basic earnings per common share:				
Earnings	$192	$159	$192	$157
Weighted average common shares outstanding	274.5	311.3	274.5	311.3
Per share amount	$0.70	$0.51	$0.70	$0.50
Diluted earnings per common share:				
Earnings	$192	$159	$192	$157
Weighted average common shares outstanding	274.5	311.3	274.5	311.3
Add effect of dilutive securities:				
Share-based awards	6.2	6.4	6.2	6.4
Diluted weighted average common shares outstanding	280.7	317.7	280.7	317.7
Per share amount	$0.68	$0.50	$0.68	$0.49

In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three months ended March 30, 2013 and March 31, 2012, the assumed exercise of 4.5 million and 5.8 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 $1.5 billion at both March 30, 2013 and December 31, 2012. Of these amounts, $62 million at March 30, 2013 and $63 million at December 31, 2012 were restricted.

Sigma Fund

The Sigma Fund consists of the following:

	March 30, 2013	December 31, 2012
Cash	$—	$149
Securities:		
U.S. government, agency, and government-sponsored enterprise obligations	2,245	1,984
	$2,245	$2,133

Investments

Investments consist of the following:

March 30, 2013	Recorded Value Short-term Investments	Investments	Less Unrealized Gains	Unrealized Loss	Cost Basis
Available-for-sale securities:					
U.S. government, agency and government-sponsored enterprise obligations	$—	$18	$—	$—	$18
Corporate bonds	3	7	—	—	10
Mortgage-backed securities	—	2	—	—	2
Common stock and equivalents	—	11	3	—	8
	3	38	3	—	38
Other securities, at cost	—	98	—	—	98
Equity method investments	—	12	—	—	12
	$3	$148	$3	$—	$148

December 31, 2012	Recorded Value Short-term Investments	Investments	Less Unrealized Gains	Unrealized Loss	Cost Basis
Available-for-sale securities:					
U.S. government, agency and government-sponsored enterprise obligations	$—	$15	$—	$—	$15
Corporate bonds	2	11	—	—	13
Mortgage-backed securities	—	2	—	—	2
Common stock and equivalents	—	10	3	—	7
	2	38	3	—	37
Other securities, at cost	—	93	—	—	93
Equity method investments	—	13	—	—	13
	$2	$144	$3	$—	$143

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	March 30, 2013	December 31, 2012
Accounts receivable	$1,695	$1,932
Less allowance for doubtful accounts	(51)	(51)
	$1,644	$1,881

Inventories, Net

Inventories, net, consist of the following:

	March 30, 2013	December 31, 2012
Finished goods	$247	$244
Work-in-process and production materials	433	432
	680	676
Less inventory reserves	(165)	(163)
	$515	$513

Other Current Assets

Other current assets consist of the following:

	March 30, 2013	December 31, 2012
Costs and earnings in excess of billings	$429	$416
Contract-related deferred costs	124	141
Tax-related deposits and refunds receivable	142	95
Other	173	148
	$868	$800

Property, Plant and Equipment, Net

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

	March 30, 2013	December 31, 2012
Land	$37	$38
Building	745	739
Machinery and equipment	1,946	1,932
	2,728	2,709
Less accumulated depreciation	(1,903)	(1,870)
	$825	$839

Depreciation expense for the three months ended March 30, 2013 and March 31, 2012 was $45 million and $46 million, respectively.

Other Assets

Other assets consist of the following:

	March 30, 2013	December 31, 2012
Intangible assets	$98	$109
Long-term receivables	30	60
Other	203	200
	$331	$369

Accrued Liabilities

Accrued liabilities consist of the following:

	March 30, 2013	December 31, 2012
Deferred revenue	$819	$820
Billings in excess of costs and earnings	297	387
Compensation	329	424
Tax liabilities	75	95
Customer reserves	106	144
Dividend payable	71	72
Other	595	684
	$2,292	$2,626

Other Liabilities

Other liabilities consist of the following:

	March 30, 2013	December 31, 2012
Defined benefit plans, including split dollar life insurance policies	$3,356	$3,389
Postretirement health care benefit plan	165	167
Deferred revenue	319	304
Unrecognized tax benefits	100	98
Other	196	237
	$4,136	$4,195

Stockholders' Equity

Share Repurchase Program: The Company paid an aggregate of $357 million during the first quarter of 2013, including transactions costs, to repurchase 5.9 million shares at an average price of $60.27 per share. As of March 30, 2013, the Company has used approximately $3.9 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving approximately $1.1 billion of authority available for repurchases. All repurchased shares have been retired.

Payment of Dividends: During the three months ended March 30, 2013 and March 31, 2012, the Company paid $72 million and $70 million, respectively, in cash dividends to holders of its 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, 2013 to March 30, 2013:

	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 at December 31, 2012:	$1	$ 2	$(3,211)	$(92)	$(3,300)
Other comprehensive loss before reclassifications	—	—	—	(37)	(37)
Amounts reclassified from accumulated other comprehensive income (loss)	$(1)	$ —	$19	$—	$18
Net current-period other comprehensive income (loss)	(1)	—	19	(37)	(19)
Balance at March 30, 2013	$—	$ 2	$(3,192)	$(129)	$(3,319)

Amounts Reclassified from Accumulated Other Comprehensive Loss during the three months ended March 30, 2013:

Three months ended March 30, 2013	Amount Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Condensed Consolidated Statement of Operations
Gain on cash flow hedges:			
Foreign exchange contracts	(1	)	Cost of sales
	$(1	)	Total before tax
	—		Tax expense
	$(1	)	Net of tax
Amortization of retirement benefit items:			
Prior service costs	(11	)	Selling, general, and administrative expenses
Unrecognized net losses	$39		Selling, general, and administrative expenses
	28		Total before tax
	$(9	)	Tax benefit
	19		Net of tax
Total reclassifications for the period, net of tax	$18		

4. Debt and Credit Facilities

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.

As of March 30, 2013, the Company had a $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 March 30, 2013. The Company did not borrow under the 2011 Motorola Solutions Credit Agreement during the three months ended March 30, 2013.

5. Risk Management

Foreign Currency Risk

At March 30, 2013, the Company had outstanding foreign exchange contracts with notional amounts totaling $618 million, compared to $523 million outstanding at December 31, 2012. 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 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 March 30, 2013, and the corresponding positions as of December 31, 2012:

Net Buy (Sell) by Currency	Notional Amount March 30, 2013		December 31, 2012	
British Pound	$213		$225	
Chinese Renminbi	(149	)	(99	)
Brazilian Real	(69	)	3	
Norwegian Krone	(51	)	(48	)
Israeli Shekel	(49	)	(35	)

Interest Rate Risk

At March 30, 2013, the Company had $2.5 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 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 $4 million, at both March 30, 2013 and December 31, 2012.

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 March 30, 2013, all of the counterparties have investment grade credit ratings. The Company is not exposed to material net credit risk with any single counterparty. As of March 30, 2013, the Company was exposed to an aggregate net credit risk of approximately $2 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 at March 30, 2013 and December 31, 2012:

	Fair Values of Derivative Instruments			
	Assets		Liabilities	
March 30, 2013	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	$2	Other assets	$4	Other liabilities
Interest agreement contracts	—	Other assets	4	Other liabilities
Total derivatives not designated as hedging instruments	2		8	
Total derivatives	$2		$8	

	Fair Values of Derivative Instruments			
	Assets		Liabilities	
December 31, 2012	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	2	Other assets	3	Other liabilities
Interest agreement contracts	—	Other assets	4	Other liabilities
Total derivatives not designated as hedging instruments	2		7	
Total derivatives	$3		$7	

The following tables summarize the effect of derivative instruments in the Company's condensed consolidated statements of operations for the three months ended March 30, 2013 and March 31, 2012:

Loss on Derivative Instruments	Three Months Ended March 30, 2013	March 31, 2012	Statement of Operations Location
Derivatives not designated as hedging instruments:			
Interest rate contracts	$—	$—	Other income (expense)
Foreign exchange contracts	(17)	(4)	Other income (expense)
Total derivatives not designated as hedging instruments	$(17)	$(4)	

The following tables summarize the gains and losses recognized in the condensed consolidated financial statements for the three months ended March 30, 2013 and March 31, 2012:

Foreign Exchange Contracts	Three Months Ended March 30, 2013	March 31, 2012	Financial Statement Location
Derivatives in cash flow hedging relationships:			
Gain recognized in Accumulated other comprehensive loss	$—	$3	Accumulated other comprehensive loss
Gain (loss) reclassified from Accumulated other comprehensive loss into Net earnings	1	(1)	Costs of sales

6. Income Taxes

At March 30, 2013 and December 31, 2012, the Company had valuation allowances of $304 million and $308 million, respectively, including $267 million and $272 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.

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 income 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 are permanently invested overseas. The Company intends to utilize the offshore earnings to fund foreign investments, such as potential acquisitions and capital expenditures. During 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, primarily due to the change in permanent reinvestment assertion. Undistributed earnings that the Company intends to reinvest indefinitely, and for which no income taxes have been provided, aggregate to $1.3 billion and $1.0 billion at March 30, 2013 and December 31, 2012, respectively.

The Company had unrecognized tax benefits of $167 million and $161 million at March 30, 2013 and December 31, 2012, respectively, of which $143 million and $138 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 $50 million tax benefit, with cash payments in the range of $0 to $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 results of operations in the periods in which the matters are ultimately resolved.

14

7. Retirement Benefits

Pension Benefit Plans

The net periodic pension costs for the U.S. and Non-U.S. plans were as follows:

Three Months Ended	March 30, 2013 U.S.	March 30, 2013 Non U.S.	March 31, 2012 U.S.	March 31, 2012 Non U.S.
Service cost	$—	$3	$—	$3
Interest cost	88	17	88	18
Expected return on plan assets	(92)	(19)	(106)	(19)
Amortization of:				
Unrecognized net loss	33	3	68	5
Unrecognized prior service cost	—	(2)	—	(1)
Net periodic pension costs	$29	$2	$50	$6

During the three months ended March 30, 2013, payments of $24 million were made to the Company’s U.S. plans, and $13 million to the Company’s Non-U.S. plans.

Postretirement Health Care Benefits Plan

Net postretirement health care expenses (benefits) consist of the following:

	Three Months Ended March 30, 2013	Three Months Ended March 31, 2012
Service cost	$1	$1
Interest cost	3	5
Expected return on plan assets	(2)	(3)
Amortization of:		
Unrecognized net loss	4	3
Unrecognized prior service cost	(11)	—
Net postretirement health care expense (benefits)	$(5)	$6

During the year ended December 31, 2012, the Company announced an amendment to the Postretirement Health Care Benefits Plan. Starting January 1, 2013, benefits under the plan to participants over age 65 are paid to a retiree health reimbursement account instead of directly providing health insurance coverage to the participants. Covered retirees will be able to use the annual subsidy they receive through this account toward the purchase of their own health care coverage from private insurance companies and for reimbursement of eligible health care expenses. This change resulted in a remeasurement of the plan during 2012 which reduced the liability through an increase in deferred prior service cost. The majority of the deferred prior service cost will be recognized over approximately three years, which is the period in which the remaining employees eligible for the plan will qualify for benefits under the plan.

The Company made no contributions to its postretirement health care fund during the three months ended March 30, 2013.

Defined Contribution Plans

The Company and certain subsidiaries have various defined contribution plans, in which all eligible employees participate. In the U.S., the 401(k) plan is a contributory plan. Matching contributions are based upon the amount of the employees' contributions. For the three months ended March 30, 2013, the Company did not make any discretionary matching contributions.

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	
	March 30, 2013	March 31, 2012
Share-based compensation expense included in:		
Costs of sales	$6	$6
Selling, general and administrative expenses	28	26
Research and development expenditures	11	11
Share-based compensation expense included in Operating earnings	45	43
Tax benefit	14	13
Share-based compensation expense, net of tax	$31	$30
Decrease in basic earnings per share	$(0.11)	$(0.10)
Decrease in diluted earnings per share	$(0.11)	$(0.09)

Employee Stock Purchase Plan

The employee stock purchase plan allows eligible participants to purchase shares of the Company's common stock through payroll deductions of eligible compensation on an after-tax basis. Effective April 1, 2012, the Company increased the maximum purchase from 10% to 20% of eligible compensation. Plan participants cannot purchase more than $25,000 of stock in any calendar year.

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 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 March 30, 2013 and December 31, 2012 were as follows:

March 30, 2013	Level 1	Level 2	Total
Assets:			
Sigma Fund securities:			
U.S. government, agency and government-sponsored enterprise obligations	$—	$2,245	$2,245
Foreign exchange derivative contracts	—	2	2
Available-for-sale securities:			
U.S. government, agency and government-sponsored enterprise obligations	—	18	18
Corporate bonds	—	7	7
Mortgage-backed securities	—	2	2
Common stock and equivalents	3	8	11
Liabilities:			
Foreign exchange derivative contracts	$—	$4	$4
Interest agreement derivative contracts	—	4	4

December 31, 2012	Level 1	Level 2	Total
Assets:			
Sigma Fund securities:			
U.S. government, agency and government-sponsored enterprise obligations	$—	$1,984	$1,984
Foreign exchange derivative contracts	—	3	3
Available-for-sale securities:			
U.S. government, agency and government-sponsored enterprise obligations	—	15	15
Corporate bonds	—	11	11
Mortgage-backed securities	—	2	2
Common stock and equivalents	3	7	10
Liabilities:			
Foreign exchange derivative contracts	$—	$3	$3
Interest agreement derivative contracts	—	4	4

The Company had no Level 3 holdings as of March 30, 2013 and December 31, 2012.

At March 30, 2013, the Company had $376 million of investments in money market mutual funds classified as Cash and cash equivalents in its condensed consolidated balance sheet, compared to $422 million at December 31, 2012. The money market funds have 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 March 30, 2013 was $2.6 billion (Level 2), compared to a 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 than the instruments' fair values.

10. Long-term Customer Financing and Sales of Receivables

Long-term Customer Financing

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

	March 30, 2013	December 31, 2012
Long-term receivables	$69	$101
Less current portion	(39)	(41)
Non-current long-term receivables, net	$30	$60

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 $73 million at March 30, 2013, compared to $84 million at December 31, 2012.

As of March 30, 2013, $30 million of net receivables are classified as long-term. The remainder of the receivables are current and included in Accounts receivable, net.

Sales of Receivables

The Company had no committed facilities for the sale of accounts receivable or long-term receivables at March 30, 2013 or at December 31, 2012.

The following table summarizes the proceeds received from non-recourse sales of accounts receivable and long-term receivables for the three months ended March 30, 2013 and March 31, 2012:

	Three Months Ended	
	March 30, 2013	March 31, 2012
Cumulative quarterly proceeds received from one-time sales:		
Accounts receivable sales proceeds	$1	$5
Long-term receivable sales proceeds	28	67
Total proceeds from one-time sales of accounts receivable	$29	$72

At March 30, 2013, the Company had retained servicing obligations for $379 million of long-term receivables, compared to $375 million of long-term receivables at December 31, 2012. Servicing obligations are limited to collection activities related to the non-recourse 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 March 30, 2013 and December 31, 2012 is as follows:

March 30, 2013	Total Long-term Receivable	Current Billed Due	Past Due Under 90 Days	Past Due Over 90 Days
Municipal leases secured tax exempt	$8	$ —	$—	$—
Commercial loans and leases secured	61	4	—	7
Total gross long-term receivables, including current portion	$69	$ 4	$—	$7

December 31, 2012	Total Long-term Receivable	Current Billed Due	Past Due Under 90 Days	Past Due Over 90 Days
Municipal leases secured tax exempt	$23	$ —	$—	$—
Commercial loans and leases secured	78	1	2	4
Total gross long-term receivables, including current portion	$101	$ 1	$2	$4

The Company had a total of $7 million of financing receivables past due over 90 days as of March 30, 2013 in relation to two loans, one of which had a balance of $13 million. The Company ceased accruing interest on this loan as of December 31, 2011.

11. Commitments and Contingencies

Legal

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

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.

Some of these obligations arise as a result of divestitures of the Company's assets or businesses and require the Company to indemnify the other party against losses arising from breaches of representations and warranties and covenants and, in some cases, the settlement of pending obligations. The Company's obligations under divestiture agreements for indemnification based on breaches of representations and warranties are generally limited in terms of duration, and for amounts for breaches of such representation and warranties in connection with prior divestitures not in excess of a percentage of the contract value. The total amount of indemnification under these types of provisions is approximately $14 million, of which the Company had no accruals at March 30, 2013.

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. However there is an increasing risk in relation to patent indemnities given the current legal climate.

In addition, 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

The following table summarizes the Net sales by segment:

	Three Months Ended	
	March 30, 2013	March 31, 2012
Government	$1,346	$1,301
Enterprise	627	655
	$1,973	$1,956

The following table summarizes the Operating earnings by segment:

19

	Three Months Ended	
	March 30, 2013	March 31, 2012
Government	$180	$150
Enterprise	36	82
Operating earnings	216	232
Total other income (expense)	(11)	12
Earnings from continuing operations before income taxes	$205	$244

13. Reorganization of Businesses

2013 Charges

During the three months ended March 30, 2013, the Company recorded net reorganization of business charges of $11 million, all of which was included in Other charges in the Company's condensed consolidated statements of operations. Included in the $11 million were charges of $16 million for employee separation costs, partially offset by $5 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by segment:

March 30, 2013	Three Months Ended
Government	$7
Enterprise	4
	$11

The following table displays a rollforward of the reorganization of businesses accruals established for lease exit costs and employee separation costs from January 1, 2013 to March 30, 2013:

	Accruals at January 1, 2013	Additional Charges	Adjustments	Amount Used	Accruals at March 30, 2013
Exit costs	$4	$—	$—	$—	$4
Employee separation costs	31	16	(5)	(15)	27
	$35	$16	$(5)	$(15)	$31

Exit Costs

At January 1, 2013, the Company had an accrual of $4 million for exit costs attributable to lease terminations. During the three months ended March 30, 2013, there were no additional charges or cash payments related to the exit of leased facilities. The remaining accrual of $4 million, which is included in Accrued liabilities in the Company’s condensed consolidated balance sheets at March 30, 2013, primarily represents future cash payments for lease termination obligations that are expected to be paid over a number of years.

Employee Separation Costs

At January 1, 2013, the Company had an accrual of $31 million for employee separation costs, representing the severance costs for: (i) severed employees who began receiving payments in 2012, and (ii) approximately 200 employees who began receiving payments in 2013. The 2013 additional charges of $16 million represent severance costs for approximately 200 additional employees, of which 100 were indirect employees and 100 were direct employees. The adjustment of $5 million reflects reversals of accruals no longer needed. The $15 million used reflects cash payments. The remaining accrual of $27 million, which is included in Accrued liabilities in the Company’s condensed consolidated balance sheets at March 30, 2013, is expected to be paid, generally, within one year to approximately 600 employees, who have either been severed or have been notified of their severance and have begun or will begin receiving payments.

2012 Charges

During the three months ended March 31, 2012, the Company recorded net reorganization of business charges of $9 million, within Other charges in the Company’s condensed consolidated statements of operations. Included in the $9 million

20

were charges of $12 million related to the separation of approximately 200 indirect employees, and $1 million for building impairment charges, partially offset by $4 million of reversals for accruals no longer needed.

The following table displays the net charges incurred by segment:

March 31, 2012	Three Months Ended
Government	$7
Enterprise	2
	$9

14. Intangible Assets and Goodwill

Intangible Assets

Amortized intangible assets were comprised of the following:

	March 30, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Completed technology	$656	$634	$657	$632
Patents	276	276	276	276
Customer-related	197	129	201	125
Licensed technology	23	19	23	19
Other intangibles	94	90	94	90
	$1,246	$1,148	$1,251	$1,142

For the three months ended March 30, 2013 and March 31, 2012, amortization expense on intangible assets was $6 million. As of March 30, 2013, annual amortization expense is estimated to be $25 million in 2013, $23 million in 2014, $18 million in 2015, $18 million in 2016 and $15 million in 2017.

Amortized intangible assets, excluding goodwill, were comprised of the following by segment:

	March 30, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Government	$53	$48	$53	$48
Enterprise	1,193	1,100	1,198	1,094
	$1,246	$1,148	$1,251	$1,142

Goodwill

The following table displays a rollforward of the carrying amount of goodwill by segment from January 1, 2013 to March 30, 2013:

	Government	Enterprise	Total
Balances as of January 1, 2013:			