

Motorola Solutions, Inc.
Form 10-Q
October 24, 2012

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

Form 10-Q

(Mark One)

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

For the period ended September 29, 2012

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)
1303 E. Algonquin Road,
Schaumburg, Illinois
(Address of principal executive offices)
Registrant's telephone number, including area code:
(847) 576-5000

36-1115800
(I.R.S. Employer Identification No.)
60196
(Zip Code)

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 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 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 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

The number of shares outstanding of each of the issuer's classes of common stock as of the close of business on September 29, 2012:

Class	Number of Shares
Common Stock; \$.01 Par Value	280,500,435

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

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales from products	\$1,567	\$1,552	\$4,574	\$4,379
Net sales from services	586	533	1,683	1,524
Net sales	2,153	2,085	6,257	5,903
Costs of product sales	682	679	2,052	1,949
Costs of service sales	384	351	1,085	968
Costs of sales	1,066	1,030	3,137	2,917
Gross margin	1,087	1,055	3,120	2,986
Selling, general and administrative expenses	485	471	1,454	1,414
Research and development expenditures	262	270	785	769
Other charges	16	60	48	221
Operating earnings	324	254	833	582
Other income (expense):				
Interest expense, net	(16	) (18	) (46	) (59
Gain on sales of investments and businesses, net	19	2	39	21
Other	(3	) —	(18	) (73
Total other expense	—	(16	) (25	) (111
Earnings from continuing operations before income taxes	324	238	808	471
Income tax expense (benefit)	118	83	266	(93
Earnings from continuing operations	206	155	542	564
Earnings (loss) from discontinued operations, net of tax	—	(25	) 3	404
Net earnings	206	130	545	968
Less: Earnings (loss) attributable to noncontrolling interests	—	2	—	(6
Net earnings attributable to Motorola Solutions, Inc.	206	128	545	974
Amounts attributable to Motorola Solutions, Inc. common stockholders:				
Earnings from continuing operations, net of tax	\$206	\$153	\$542	\$570
Earnings (loss) from discontinued operations, net of tax	—	(25	) 3	404
Net earnings	\$206	\$128	\$545	\$974
Earnings (loss) per common share:				
Basic:				
Continuing operations	\$0.73	\$0.46	\$1.83	\$1.69
Discontinued operations	—	(0.08	) 0.01	1.20
	\$0.73	\$0.38	\$1.84	\$2.89
Diluted:				
Continuing operations	\$0.72	\$0.45	\$1.80	\$1.66
Discontinued operations	—	(0.07) 0.01	1.18
	\$0.72	\$0.38	\$1.81	\$2.84
Weighted average common shares outstanding:				

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Basic	283.1	335.4	296.1	337.3
Diluted	287.4	339.5	301.5	343.4
Dividends declared per share	\$0.26	—	\$0.70	—

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

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

(In millions)	Three Months Ended	
	September 29, 2012	October 1, 2011
Net earnings	\$206	\$130
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of \$14 and \$19	53	34
Remeasurement of Postretirement Health Care Plan, net of tax of \$52 and \$0	87	—
Foreign currency translation adjustment, net of tax of \$21 and \$3	4	(34)
Net gain (loss) on derivative hedging instruments, net of tax of \$0 and \$(1)	2	(5)
Net unrealized loss on securities, net of tax of \$(5) and \$(6)	(6)	(9)
Total other comprehensive income (loss)	140	(14)
Comprehensive income	346	116
Less: Earnings attributable to noncontrolling interest	—	2
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	\$346	\$114
	Nine Months Ended	
(In millions)	September 29, 2012	October 1, 2011
Net earnings	\$545	\$968
Other comprehensive income (loss):		
Amortization of retirement benefit adjustments, net of tax of \$65 and \$55	148	99
Remeasurement of retirement benefits, net of tax of \$52 and \$9	87	(77)
Foreign currency translation adjustment, net of tax of \$11 and \$(2)	(18)	49
Net gain (loss) on derivative hedging instruments, net of tax of \$0 and \$(1)	4	(3)
Net unrealized gain on securities, net of tax of \$1 and \$0	2	—
Total other comprehensive income	223	68
Comprehensive income	768	1,036
Less: Loss attributable to noncontrolling interest	—	(6)
Comprehensive income attributable to Motorola Solutions, Inc. common shareholders	\$768	\$1,042
See accompanying notes to condensed consolidated financial statements (unaudited).		

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

(In millions, except par value amounts)	September 29, 2012	December 31, 2011
ASSETS		
Cash and cash equivalents	\$1,779	\$1,881
Sigma Fund and short-term investments	1,760	3,210
Accounts receivable, net	1,704	1,866
Inventories, net	538	512
Deferred income taxes	662	613
Other current assets	828	686
Total current assets	7,271	8,768
Property, plant and equipment, net	860	896
Investments	162	166
Deferred income taxes	2,017	2,375
Goodwill	1,430	1,428
Other assets	280	296
Total assets	\$12,020	\$13,929
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current portion of long-term debt	\$4	\$405
Accounts payable	646	677
Accrued liabilities	2,475	2,733
Total current liabilities	3,125	3,815
Long-term debt	1,860	1,130
Other liabilities	3,138	3,710
Stockholders' Equity		
Preferred stock, \$100 par value	—	—
Common stock, \$.01 par value:	3	3
Authorized shares: 600.0		
Issued shares: 9/29/12—282.3; 12/31/11—320.0		
Outstanding shares: 9/29/12—280.5; 12/31/11—318.8		
Additional paid-in capital	5,161	7,071
Retained earnings	1,361	1,016
Accumulated other comprehensive loss	(2,653)	(2,876)
Total Motorola Solutions, Inc. stockholders' equity	3,872	5,214
Noncontrolling interests	25	60
Total stockholders' equity	3,897	5,274
Total liabilities and stockholders' equity	\$12,020	\$13,929
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, 2011	320.0	\$ 7,074	\$ (2,876)	\$ 1,016	\$ 60
Net earnings				545	—
Net unrealized gain on securities, net of tax of \$1			2		
Foreign currency translation adjustments, net of tax of \$11			(18)		
Amortization of retirement benefit adjustments, net of tax of \$65			148		
Remeasurement of retirement benefits, net of tax of \$52			87		
Issuance of common stock and stock options exercised	5.8	26			
Share repurchase program	(43.5)	(2,112)			
Excess tax benefit from share-based compensation		17			
Share-based compensation expense		139			
Net gain on derivative hedging instruments, net of tax of \$0			4		
Acquisition of noncontrolling interest from Japanese subsidiary		20			(35)
Dividends declared				(200)	
Balance at September 29, 2012	282.3	\$ 5,164	\$ (2,653)	\$ 1,361	\$ 25

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)

(In millions)	Nine Months Ended	
	September 29, 2012	October 1, 2011
Operating		
Net earnings attributable to Motorola Solutions, Inc.	\$545	\$974
Loss attributable to noncontrolling interests	—	(6)
Net earnings	545	968
Earnings from discontinued operations, net of tax	3	404
Earnings from continuing operations	542	564
Adjustments to reconcile earnings from continuing operations to net cash provided by operating activities:		
Depreciation and amortization	151	273
Non-cash other expense	12	39
Share-based compensation expense	139	123
Gain on sales of investments and businesses, net	(39)	(21)
Loss from the extinguishment of long-term debt	6	81
Deferred income taxes	203	30
Changes in assets and liabilities, net of effects of acquisitions and dispositions:		
Accounts receivable	189	82
Inventories	(51)	(38)
Other current assets	(147)	(6)
Accounts payable and accrued liabilities	(283)	(230)
Other assets and liabilities	(218)	(93)
Net cash provided by operating activities from continuing operations	504	804
Investing		
Acquisitions and investments, net	61	(26)
Proceeds from (used for) sales of investments and businesses, net	(38)	1,064
Capital expenditures	(140)	(103)
Proceeds from sales of property, plant and equipment	9	6
Proceeds from sales of Sigma Fund investments, net	1,450	225
Proceeds from sales of short-term investments, net	—	6
Net cash provided by investing activities from continuing operations	1,342	1,172
Financing		
Repayment of debt	(412)	(617)
Net proceeds from issuance of debt	747	—
Contributions to Motorola Mobility	(73)	(3,275)
Issuance of common stock	79	148
Purchase of common stock	(2,112)	(744)
Excess tax benefits from share-based compensation	17	39
Payments of dividends	(197)	—
Distribution from (to) discontinued operations	(11)	102
Net cash used for financing activities from continuing operations	(1,962)	(4,347)
Discontinued Operations		
Net cash provided by operating activities from discontinued operations	2	65
Net cash used for investing activities from discontinued operations	—	(8)
Net cash provided by (used for) financing activities from discontinued operations	11	(102)
	(13)	45

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Effect of exchange rate changes on cash and cash equivalents from discontinued operations			
Net cash provided by (used for) discontinued operations	—	—	
Effect of exchange rate changes on cash and cash equivalents from continuing operations	14	(52)
Net decrease in cash and cash equivalents	(102	)	(2,423)
Cash and cash equivalents, beginning of period	1,881	4,208	
Cash and cash equivalents, end of period	\$1,779	\$1,785	
Cash Flow Information			
Cash paid during the period for:			
Interest, net	\$61	\$110	
Income and withholding taxes, net of refunds	104	57	

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

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

1. Basis of Presentation

The condensed consolidated financial statements as of September 29, 2012 and for the three and nine months ended September 29, 2012 and October 1, 2011, 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, 2011. The results of operations for the three and nine months ended September 29, 2012 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 December 2011, the Financial Accounting Standards Board ("FASB") issued ASU 2011-12, which deferred the guidance on whether to require entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement where net income is presented and the statement where other comprehensive income is presented for both interim and annual financial statements, as required by ASU 2011-05. The Company adopted all other requirements of ASU 2011-05 effective January 1, 2012.

In December 2011, the FASB issued Accounting Standards Update No. 2011-11 "Disclosures about Offsetting Assets and Liabilities." The standard requires additional disclosure to enhance the comparability of U.S. GAAP and International Financial Reporting Standards ("IFRS") financial statements. The new standard is effective for annual and interim periods beginning January 1, 2013. Retrospective application is required. The guidance concerns disclosure only and will not have an impact on the Company's consolidated financial position or results of operations.

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.

On October 28, 2011, the Company completed the sale of its Wireless Broadband businesses. The operating results of the Wireless Broadband businesses, formerly included as part of the Enterprise segment, are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented.

On April 29, 2011 the Company completed the sale of certain assets and liabilities of its Networks business to Nokia Siemens Networks ("NSN"). The results of operations of the portions of the Networks business sold to NSN are reported as discontinued operations in the condensed consolidated statements of operations for all periods presented.

The following table displays summarized activity in the Company's condensed consolidated statements of operations for discontinued operations during the three and nine months ended September 29, 2012 and October 1, 2011.

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Net sales	\$—	\$81	\$—	\$1,309
Operating earnings	—	10	11	213
Gains (losses) on sales of investments and businesses, net	—	(52	) (7	) 436
Earnings (loss) before income taxes	—	(37	) 8	642
Income tax expense (benefit)	—	(12	) 5	238
Earnings (loss) from discontinued operations, net of tax	—	(25	) 3	404

3. Other Financial Data

Statement of Operations Information

Other Charges

Other charges included in Operating earnings consist of the following:

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Other charges (income):				
Amortization of intangible assets	\$6	\$50	\$18	\$150
Legal matters and intellectual property reserve adjustments, net	—	—	—	48
Pension plan adjustments	—	—	—	(9
Reorganization of business charges	10	10	30	32
	\$16	\$60	\$48	\$221

Other Income (Expense)

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

	Three Months Ended		Nine Months Ended	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Interest income (expense), net:				
Interest expense	\$(29	) \$(31	) \$(79	) \$(105
Interest income	13	13	33	46
	\$(16	) \$(18	) \$(46	) \$(59
Other:				
Losses from the extinguishment of long-term debt	\$—	\$—	\$(6	) \$(81
Investment impairments	(6	) —	(8	) (3
Foreign currency gain (loss)	—	(6	) (11	) 5
Loss on Sigma Fund investments	—	(2	) —	(2
Other	3	8	7	8
	\$(3	) \$—	\$(18	) \$(73

Earnings Per Common Share

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

Three Months Ended	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from continuing operations		Net Earnings	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Basic earnings per common share:				
Earnings	\$206	\$153	\$206	\$128
Weighted average common shares outstanding	283.1	335.4	283.1	335.4
Per share amount	\$0.73	\$0.46	\$0.73	\$0.38
Diluted earnings per common share:				
Earnings	\$206	\$153	\$206	\$128
Weighted average common shares outstanding	283.1	335.4	283.1	335.4
Add effect of dilutive securities:				
Share-based awards	4.3	4.1	4.3	4.1
Diluted weighted average common shares outstanding	287.4	339.5	287.4	339.5
Per share amount	\$0.72	\$0.45	\$0.72	\$0.38
Nine Months Ended	Amounts attributable to Motorola Solutions, Inc. common stockholders			
	Earnings from Continuing Operations		Net Earnings	
	September 29, 2012	October 1, 2011	September 29, 2012	October 1, 2011
Basic earnings per common share:				
Earnings	\$542	\$570	\$545	\$974
Weighted average common shares outstanding	296.1	337.3	296.1	337.3
Per share amount	\$1.83	\$1.69	\$1.84	\$2.89
Diluted earnings per common share:				
Earnings	\$542	\$570	\$545	\$974
Weighted average common shares outstanding	296.1	337.3	296.1	337.3
Add effect of dilutive securities:				
Share-based awards	5.4	6.1	5.4	6.1
Diluted weighted average common shares outstanding	301.5	343.4	301.5	343.4
Per share amount	\$1.80	\$1.66	\$1.81	\$2.84

In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three and nine months ended September 29, 2012, the assumed exercise of 6.1 million and 6.0 million stock options, respectively, were excluded because their inclusion would have been antidilutive. In the computation of diluted earnings per common share from both continuing operations and on a net earnings basis for the three and nine months ended October 1, 2011, the assumed exercise of 8.9 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.

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 \$1.8 billion and \$1.9 billion at September 29, 2012 and December 31, 2011, respectively. Of these amounts, \$63 million at both September 29, 2012 and December 31, 2011, was restricted.

Sigma Fund

The Sigma Fund consists of the following:

	September 29, 2012	December 31, 2011
Cash	\$—	\$264
Securities:		
U.S. government, agency, and government-sponsored enterprise obligations	1,758	2,944
	\$1,758	\$3,208

Investments

Investments consist of the following:

	Recorded Value		Less		
	Short-term	Investments	Unrealized	Unrealized	Cost
	Investments		Gains	Loss	Basis
September 29, 2012					
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	—	30	4	—	26
	2	58	4	—	56
Other securities, at cost	—	90	—	—	90
Equity method investments	—	14	—	—	14
	\$2	\$162	\$4	\$—	\$160
December 31, 2011					
Available-for-sale securities:					
U.S. government, agency and government-sponsored enterprise obligations	\$—	\$ 16	\$—	\$—	\$ 16
Corporate bonds	2	10	—	—	12
Mortgage-backed securities	—	2	—	—	2
Common stock and equivalents	—	11	2	(1	) 10
	2	39	2	(1	) 40
Other securities, at cost	—	106	—	—	106
Equity method investments	—	21	—	—	21
	\$2	\$166	\$2	\$(1	) \$167

Accounts Receivable, Net

Accounts receivable, net, consists of the following:

	September 29, 2012	December 31, 2011
Accounts receivable	\$1,754	\$1,911
Less allowance for doubtful accounts	(50	) (45
	\$1,704	\$1,866

Inventories, Net

Inventories, net, consist of the following:

	September 29, 2012	December 31, 2011
Finished goods	\$323	\$319
Work-in-process and production materials	378	363
	701	682
Less inventory reserves	(163	) (170
	\$538	\$512

Other Current Assets

Other current assets consist of the following:

	September 29, 2012	December 31, 2011
Costs and earnings in excess of billings	\$445	\$302
Contract-related deferred costs	150	142
Tax-related refunds receivable	83	85
Other	150	157
	\$828	\$686

Property, Plant and Equipment, Net

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

	September 29, 2012	December 31, 2011
Land	\$56	\$69
Building	760	774
Machinery and equipment	1,917	2,052
	2,733	2,895
Less accumulated depreciation	(1,873	) (1,999
	\$860	\$896

Depreciation expense for the three months ended September 29, 2012 and October 1, 2011 was \$39 million and \$42 million, respectively. Depreciation expense for the nine months ended September 29, 2012 and October 1, 2011 was \$133 million and \$123 million, respectively.

Other Assets

Other assets consist of the following:

	September 29, 2012	December 31, 2011
Intangible assets	\$30	\$48
Long-term receivables	43	37
Other	207	211
	\$280	\$296

Accrued Liabilities

Accrued liabilities consist of the following:

	September 29, 2012	December 31, 2011
Deferred revenue	\$799	\$774
Billings in excess of costs and earnings	389	250
Compensation	352	471
Tax liabilities	70	126
Customer reserves	126	125
Dividend payable	73	70
Networks purchase price adjustment	—	96
Other	666	821
	\$2,475	\$2,733

Other Liabilities

Other liabilities consist of the following:

	September 29, 2012	December 31, 2011
Defined benefit plans, including split dollar life insurance policies	\$2,268	\$2,675
Postretirement health care benefit plan	164	295
Deferred revenue	278	275
Unrecognized tax benefits	97	112
Other	331	353
	\$3,138	\$3,710

Stockholders' Equity

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. On January 30, 2012, the Company announced that its Board of Directors authorized up to \$1.0 billion in additional funds for use under the existing share repurchase program through the end of 2012. On February 26, 2012, the Company entered into a stock purchase agreement with Carl C. Icahn and certain of his affiliates to purchase 23,739,362 shares of its common stock. On July 25, 2012, the Company announced that its Board of Directors authorized up to \$2.0 billion in additional funds for share repurchase, bringing the aggregate amount of the share repurchase program to \$5.0 billion, and extended the entire share repurchase program indefinitely with no expiration date. The Company paid an aggregate of \$308 million during the third quarter of 2012, including transactions costs, to repurchase 6.5 million shares at an average price of \$47.47 per share. During the first nine months of 2012, the Company paid an aggregate of \$2.1 billion, including transaction costs, to repurchase 43.5 million shares at an average price of \$48.50 per share. As of September 29, 2012, the Company has used approximately \$3.2 billion of the share repurchase authority, including transaction costs, to repurchase shares, leaving approximately \$1.8 billion of authority available for repurchases. All repurchased shares have been retired.

Payment of Dividends: During the three and nine months ended September 29, 2012, the Company paid \$63 million and \$197 million, respectively, in cash dividends to holders of its common stock.

Noncontrolling Interest: On January 1, 2012, the Company entered into a series of transactions which resulted in exiting the amateur, marine and airband radio businesses. One of those transactions was acquiring the remaining 20% of the land mobile radio business previously owned by our Japanese joint venture. The acquisition of the remaining 20% of this land mobile radio business, in which the Company already had a controlling interest, resulted in a decrease of \$35 million to the Company's noncontrolling interest, and an increase of \$20 million to the Company's additional paid in capital, which primarily represents the increase in deferred tax assets from the acquisition of the 20% of the land mobile radio business assets.

4. Debt and Credit Facilities

During the second quarter of 2012, the Company issued an aggregate face principle amount of \$750 million of 3.750% Senior Notes due May 15, 2022 (the "2022 Senior Notes"). Also during the second quarter of 2012, the Company called for the redemption of the \$400 million aggregate principal amount outstanding of its 5.375% Senior Notes due November 2012 (the "2012 Senior Notes"). All of the 2012 Senior Notes were redeemed in the second quarter of 2012 for an aggregate purchase price of approximately \$408 million. During the second quarter of 2012, after accelerating the amortization of debt issuance costs and debt discounts, the Company recognized a loss of approximately \$6 million related to this redemption within Other income (expense) in the condensed consolidated statements of operations. This debt was repurchased with a portion of the proceeds from the issuance of the 2022 Senior Notes.

As of September 29, 2012, 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 September 29, 2012. The Company did not borrow under the 2011 Motorola Solutions Credit Agreement during the three and nine months ended September 29, 2012.

5. Risk Management

Foreign Currency Risk

At September 29, 2012, the Company had outstanding foreign exchange contracts with notional amounts totaling \$558 million, compared to \$524 million outstanding at December 31, 2011. 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 September 29, 2012 and the corresponding positions as of December 31, 2011:

Net Buy (Sell) by Currency	Notional Amount	
	September 29, 2012	December 31, 2011
Chinese Renminbi	\$(266)	\$(283)
Euro	(64)	8
British Pound	63	55
Malaysian Ringgit	34	37
Israeli Shekel	(32)	8

Interest Rate Risk

At September 29, 2012, the Company had \$1.9 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. As of September 29, 2012, the fair value of the Interest Agreements was in a liability position of \$4 million, compared to a liability position of \$3 million at December 31, 2011.

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 September 29, 2012, 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 September 29, 2012, the Company was exposed to an aggregate net credit risk of approximately \$4 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 September 29, 2012 and December 31, 2011:

	Fair Values of Derivative Instruments			
	Assets		Liabilities	
	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location
September 29, 2012				
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	1	Other liabilities
Interest agreement contracts	—	Other assets	4	Other liabilities
Total derivatives not designated as hedging instruments	4		5	
Total derivatives	\$5		\$5	
December 31, 2011				
Derivatives designated as hedging instruments:				
Foreign exchange contracts	\$—	Other assets	\$2	Other liabilities
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	1	Other assets	3	Other liabilities
Interest agreement contracts	—	Other assets	3	Other liabilities
Total derivatives not designated as hedging instruments	1		6	
Total derivatives	\$1		\$8	

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The following tables summarize the effect of derivative instruments in our condensed consolidated statements of operations, including amounts related to discontinued operations, for the three and nine months ended September 29, 2012 and October 1, 2011:

Gain (loss) on Derivative Instruments	Three Months Ended		Statement of Operations Location
	September 29, 2012	October 1, 2011	
Derivatives not designated as hedging instruments:			
Interest rate contracts	\$(4	) \$(3	) Other income (expense)
Foreign exchange contracts	(1	) 8	Other income (expense)
Total derivatives not designated as hedging instruments	\$(5	) \$5	
	Nine Months Ended		Statement of Operations Location
L			